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JAPANESE CARS
Brussels faces a rough ride
Page 4

World News

W Germany and US reach accord on reunification

The US and West Germany have reached a broad understanding on a timetable and framework for German reunification.

A key feature of the accord, reached late on Friday at a meeting in Washington between Mr James Baker, US Secretary of State, and Mr Hans-Dietrich Genscher, West German Foreign Minister, is that West and East German leaders will open talks on economic and monetary union immediately after the March 18 elections in East Germany. Page 16

Israeli bus deaths

Masked gunmen killed eight people and wounded at least seventeen when they attacked an Israeli tourist bus with grenades and machine guns near Ismailiya, Egypt, hospital officials said. Page 16

Yugoslav Party split

Slovenia, Yugoslavia's most westernised republic, became the first to split from the League of Communists which has ruled the country since World War Two. Page 2

Storms kill 29

Gales killed 29 people and injured dozens more in France and West Germany on Saturday, leaving scenes of devastation in their wake, agencies report. Page 3

Brucan resigns

Silviu Brucan, leader of Romania's ruling National Salvation Front, resigned because Romanian politics had become "dominated by personal ambition, careerism and political flunkeyism." Page 2

Azerbaijan talks off

Armenian negotiators broke off talks with Azerbaijan after the Armenian All-National Front in Yerevan charged the Azerbaijan People's Front with pressing Armenian residents to evacuate two villages in Azerbaijan. Page 2

Thai strike ends

Intervention by Thailand's senior military commanders has brought an end to the four-day port strike in Bangkok which paralysed the country's foreign trade. Page 3

US rift over warming

US President George Bush and his senior advisers sought to resolve a split in the Administration over global warming ahead of a speech he is to deliver to an international environment conference in Washington today. Page 16

E Beirut battles on

War for control of Christian East Beirut continued, with at least a thousand of rebel General Michel Aoun's 15,000 troops defecting – 600 to the Christian Phalange militia and 400 to the command of General Emile Lahoud in West Beirut, said security forces. Page 3

China gang held

Fifty-nine people belonging to a gang who have been preying on train passengers for nearly two years have been arrested in Zhengzhou, capital of Henan province, China.

Sikhs kill six

Sikh extremists held up a bus near Amritsar and shot dead three police guards and three passengers in a campaign which has claimed at least 200 lives this year.

Sabbath ban lifted

Chief Rabbi Mordechai Eliahu lifted a ban on air travel on the Jewish sabbath for Soviet Jews, saying their coming to Israel could save their lives.

Nepal activists held

Seventy members of the outlawed Nepali Congress Party, which favours a Western-style multi-party political system, have been arrested.

Business Summary

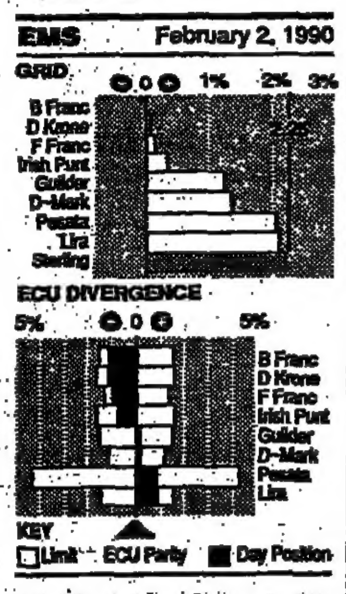
W European takeover deals surge to $51.7 bn

ALMOST 1,300 cross-border mergers and acquisitions with a disclosed value of Ecu 45.3bn ($51.7bn) were made in western Europe last year, most of them in the second six months, according to Translink's European Deal Review. Page 16

ACCOR, French hotels group, has bought a stake of about 10 per cent in Mandarin Oriental International, Hong Kong-based luxury hotel chain for HK$370m ($46m). Page 19.

EUROPEAN Monetary System: The D-Mark was little changed against the dollar last week. This coupled with a firm French franc – on better than expected French trade figures – kept pressure off the EMS. The Italian lira was generally the firmest currency, close to its divergence limit against the weak Danish krone and Belgian franc. On Friday the lira touched its highest level against the D-Mark for nearly two months.

EMS February 2, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu).

BANK Of England will today add its weight to a campaign to persuade the European Commission to amend a draft directive which, it is claimed, would drive investment business away from the EC. Page 33

PATHE Communications, the Hollywood film company that took over the assets of the now defunct Cannon films, has sold 41 cinema theatres in the UK and Netherlands to a Dutch investment vehicle owned by Fininvest. Page 19

ROVER GROUP, the leading UK car producer, is considering the introduction of three-shift, round-the-clock working on one of its assembly lines. Page 6

NIPPON LIFE, the world's largest insurance company, is to take a stake of nearly 4 per cent in Banco Bilbao Vizcaya (BBV), Spain's largest commercial bank. Page 19

HAROLD SIMMONS, the Dallas corporate raider, has said in a regulatory filing he might try to win control of the board of Lockheed, the US military aerospace group. Page 19

BAT INDUSTRIES

BAT, tobacco-based conglomerate which has been under threat from Sir James Goldsmith's Hoylake consortium, has had to reveal potential defensive strategies to the Illinois insurance department. These range from a leveraged partial disposal of tobacco interests to suggestions that Japanese investors take 10-30 per cent of equity. Page 21

MULTI-PARTY SYSTEM, PRIVATE OWNERSHIP AND POLICY RESTRUCTURING ARE ON AGENDA

Gorbachev ready to challenge right of Party over reforms

By Quentin Peel in Moscow

MR MIKHAIL Gorbachev, the Soviet leader, will today challenge the central committee of his ruling Communist Party to abandon its monopoly on power, tolerate the existence of a multi-party system and allow private property within a market economy.

Reports suggest that his sweeping plans to overhaul both the party structure and its policies will be presented intact, with Mr Gorbachev openly daring party conservatives in the central committee to reject them.

Rumours in the Soviet capital over recent days also suggest that he may finally force Mr Yegor Ligachev, his most conservative colleague in the ruling Politburo, to quit.

Mr Gorbachev has been forced to raise the stakes in his struggle with party conservatives to maintain the momentum of reform, when his policies have come under increasing fire for failing to cure the country's economic ills while releasing pent-up nationalist aspirations across the Union.

The Soviet leader has clearly been marshalling all his forces in advance of the critical plenary meeting of the central committee today and tomorrow. The meeting has to decide on reform of the Party and its political platform, to be debated at the Party congress planned for the autumn.

A string of grass-roots revolts against conservative figures in the provinces has been followed by revelations of corruption, both petty and large-scale, in the Party and government.

Mr Gorbachev is believed to have intervened to give the go-ahead to yesterday's huge pro-democracy demonstration in Moscow, which brought the centre of the capital to a standstill. The whole tenor of the demonstration was to urge Mr Gorbachev not to make any concessions to conservatives.

The most detailed account of the proposed Party platform was published at the weekend by Interfax, a news service produced by Radio Moscow. It confirmed suggestions by reliable party sources that Mr Gorbachev would present a radical programme, in the knowledge that the ruling party already faces a huge popular backlash in the country.

"The draft platform calls for a radical perestroika [restructuring] of the Party, which will fight for its leading role but assume no state or government powers, nor lay any claim to having its role set down in the constitution," Interfax said. That clearly implies the abandonment of Article 6 of the Soviet constitution, and not simply its rewording, as was earlier suggested.

"The multi-party system is not rejected, but nor is it treated as a panacea," the report said.

On the economic front, the new party platform talks of a transition to a "planned-market economy," and of the need for "powerful personal and collective incentives for producers."

As for the crucial question of property, with Party traditionalists flatly opposed to any suggestion of private property, it "calls for the equal rights of different forms of ownership, without rejecting group or private ownership."

Mr Gorbachev is also proposing radical changes in the party structure, according to Interfax and party officials. Direct election of delegates to the party congress by primary organisations is a crucial demand, bypassing the control by regional party bosses.

In addition, Mr Gorbachev is proposing something much closer to a federal party structure, with a new "political executive committee," presumably replacing the present Politburo, including representatives of all 15 republics.

The central committee would be streamlined to 200 members, with 10 per cent co-opted between congresses. It currently has 250 members, but today's meeting is a broadened plenum, including recently elected party officials who may be more sympathetic to the party leader.

Troop withdrawal talks, Lithuanians plan independence, Azerbaijan peace deal breaks down, Page 2; After bankruptcy, Observer, Page 14

A pre-revolutionary Russian flag flies near the Kremlin yesterday as thousands of pro-democracy protesters gather

US backs higher increase for IMF resources

By Peter Riddell, US Editor, in Washington

THE US has formally shifted its position to accept an increase of up to 50 per cent in the resources, or quotas, of the International Monetary Fund.

Originally, the US publicly supported a rise of only 35 per cent.

Mr Nicholas Brady, the Treasury Secretary, confirmed the change at the weekend, saying discussions among IMF members were in the 46 to 51 per cent range of increase. He said the US wanted the rise not to go over 50 per cent.

Mr Brady said the main problems now were over arrears of payments to the IMF – where the US has proposed a package of changes – and the proposed redistribution of rankings among the main industrial countries.

The arrears issue was discussed at length last week by the IMF's board. There was some resistance to the US plan to impose greater disciplines on the mainly Third World countries in arrears to the fund and to offer them some help.

Mr Brady said the rankings issue was not a direct US concern. There is general agreement that Japan should replace Britain in second place, but there is an intense debate between the UK and France over whether they should share the fourth largest place. This has turned on arcane points about relative shares of total output and world trade, but in practice it is largely a political question.

Other countries hope the general pressure to finalise the quota review will force Britain and France to reach agreement.

Talks over the quota review have dragged on, without a final decision, for four months, already forcing one postponement in the deadline from December to March 31.

Finance ministers of the Group of Seven industrial countries would prefer the issue to be decided through informal talks between senior financial officials and by the IMF's executive board of permanent representatives in Washington, rather than by summoning a meeting of its policymaking interim committee before the scheduled spring session on May 7-8.

● Mr Brady, talking in Washington ahead of the signing of Mexico's debt-reduction package with commercial bankers, described the deal as "an enormously successful financing."

Listening for an echo from the Kremlin

By Mark Nicholson in Moscow

THE WALLS of the Kremlin echoed to the Soviet Union's biggest pro-democracy protest in 70 years yesterday as at least 150,000 people rallied to call for the end of the Communist Party's monopoly of power.

The unprecedented protest also sent the clearest possible message on the eve of today's Central Committee plenum that any conservative turn by Party leaders this week will be deeply and widely resisted by democratic groups and nationalists alike.

Demonstrators of all ages swarmed round Moscow's ring-road, turning the broad boulevard of Gorky Street into a seamless collage of nationalist flags, anti-Party banners and sunlit faces, before entering the vast Square of the Anniversary of the October Revolution. "Abolish the central committee," they chanted as they arrived.

Tight ranks of grey-coated police linked arms to funnel the orderly marchers into the vast square. Among the nationalist flags of Russia, the Ukraine and the Baltic republics, there fluttered as many banners denouncing fascism and Pamyat, the hard-right Russian nationalist group, as there were denouncing the Party.

The crowds exceeded the expectations of the popular movements and radical deputies who organised the protest. Police, who put the crowd at 200,000, had to abandon plans to hold the rally in a smaller square half a kilometre away.

The demonstrators thus found themselves in the very shadow of the Kremlin's red towers, which rang to successive speakers' calls for today's plenum to cancel Article 6 of the constitution, which enshrines the Party's leading role.

"For the Party to have authority, it must decide against Article 6," said Mr Vitali Korotych, editor of the radical Ogonek magazine. "Today, here, we abolish Article 6," he added to resounding cheers.

"Standing here, we are the force which runs the country," he proclaimed. "There is no other force here."

A great roar greeted Mr Boris Yeltsin, the radical Moscow deputy who is running for presidency of the Russian Republic. He denounced the "irresolute half measures" of Party leaders and called for the next Party congress to be brought forward from autumn to May.

"If the Party says no to Article 6 the day after tomorrow, it will mean dialogue will open between the Party and the nation," his bass voice boomed. "If not, the people will have to say no to the Party."

The huge crowd listened

Continued on Page 16

Mrs Mandela casts doubt on her husband's early release

By Patti Waldmeir in Cape Town

MRS Winnie Mandela yesterday dampened expectations that her husband's release from prison was imminent, ruling out his freedom until further conditions were met by Pretoria.

Speaking after a five-hour meeting with Mr Nelson Mandela at his prison bungalow near Paarl in the Cape, Mrs Mandela said obstacles remained to her husband's release, despite a commitment from Mr F.W. de Klerk, the South African President, to free him unconditionally.

Mr Mandela, leader of the African National Congress, has been trying to exact the highest political price for his release from his 27-year imprisonment. Pressure from Mr Mandela was a crucial factor in persuading Pretoria to adopt a historic package of reforms announced by Mr de Klerk on Friday, which gained kudos abroad and qualified support from the ANC.

Mrs Mandela yesterday stressed her husband's pre-conditions for release, which included an end to the country's three-year state of emergency, the release of all political prisoners, and the removal of troops from black townships. "Obstacles exist, and it is Mr de Klerk who must remove them," she said.

Asked whether Mr Mandela would leave prison while the state of emergency remained in force, Mrs Mandela said: "That is out of the question." It was not clear whether she was speaking for her husband, however, as she had outlined the same position to journalists before she entered the prison.

She declined to say how Mr Mandela had reacted to Mr de Klerk's reforms, which included lifting the ban on the ANC and other political organisations, releasing political prisoners who have not committed violent crimes, and lifting restrictions on anti-apartheid activists and organisations.

Mr Mandela's reaction would be made known soon in a statement, she said.

On Friday, Mr de Klerk spoke of "factors in the way of his [Mr Mandela's] release," but these were understood to be minor.

Meeting in Stockholm at the weekend, the ANC, the long-exiled group fighting black rule, said the reforms had gone a "long way towards creating a climate conducive to negotiations."

Nonetheless, the organisation called on South Africans to intensify the armed struggle against Pretoria.

Pretoria reforms, Page 3

THERE is little prospect of any early reversal of the strategy of disinvestment from South Africa following the lifting of the ban on the ANC and other measures announced by President F W de Klerk last Friday. Barclays Bank, which pulled out of South Africa in November 1986, said yesterday: "Our position has not changed in the last few days." Page 3

Ferranti shareholders meet

FERRANTI International shareholders are meeting in London today as final details are put together on negotiations expected to result in Mr Eugene Anderson, the former chief executive of Johnson Matthey, succeeding Sir Derek Alun-Jones as chairman.

Several salary details are thought to be outstanding and until those are ironed out the company refuses to announce the move formally, but it has become an open secret that Mr Anderson is being lined up to take over the chair.

The extraordinary shareholders' meeting at company headquarters to approve a £187m ($314m) rights issue, will almost certainly be adjourned to keep the issue on ice as an insurance policy until Ferranti receives payment of £310m from General Electric Company of the UK for its radar division.

If the GEC deal goes through as smoothly as expected, Ferranti may choose not to use any of the capital available in the rights issue, or it may scale down the share offer.

The rights issue was negotiated with several institutions to tide the company over a crisis caused by the alleged £215m fraud at International Signal and Control, its US subsidiary. Unguided missile which crippled Ferranti, Page 10

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THE MONDAY INTERVIEW

Sir Bryan Carsberg (left) was given the difficult job of tilting the field to ensure fair play when British Telecom was privatised five years ago. Although highly regarded, there are some doubts about how he fulfils that role. Page 32

EUROPEAN NEWS

Lithuanians plan independence after elections

By John Lloyd in Vilnius

SAJUDIS, the popular front and leading political force in Lithuania, has said it will implement full independence from the Soviet Union after its expected triumph in the republican parliamentary elections on February 24.

The announcement, which would include a demand for the withdrawal of Soviet nuclear bases and troops from the republic, came on the eve of the Central Committee plenum of the Soviet Communist Party in Moscow.

This was originally called to discuss the decision of the Lithuanian Communist Party to break away from the Soviet party.

A visit by President Mikhail Gorbachev to Lithuania last month failed to dissuade the local party from seceding.

Prof Vytautas Landbergis, the Sajudis leader, told a conference in the Lithuanian capital of Vilnius at the weekend that the proclamation of independent status was essential to future negotiations between the republic and the Soviet Government so discussions on independence could take place on equal terms.

He said that the new Parliament should proclaim independent status, probably in the form of the annulment of the Molotov-Ribbentrop Pact, under which Lithuania was ceded to the Soviet sphere of influence before the German invasion of the Soviet Union in 1940.

Talks with the Soviet Union would then begin on a phased withdrawal of military bases, including nuclear installations. Dr Antanas Buracas, a deputy of the Supreme Soviet of the Soviet Union representing the Lithuanian constituency of Dzukija, said the removal of these bases could be put in the context of a reciprocal withdrawal of Nato bases in Scandinavia.

Sajudis speakers at the conference, which included participants from democratic and national movements elsewhere in the Soviet Union and from Eastern Europe, said the movement had ceased to function as a supporter of perestroika and the Gorbachev reforms – the form it took at its inception in 1988. Now, the main issue was the achievement of independence.

About 10 political parties have been formed in the republic to compete for the 141 parliamentary seats – including the now-independent Lithuanian Communist Party, the Democratic Party, the Social Democratic Party, the Christian Democratic Party, the Greens, the Peasant Party, and the Party of Humanism and Progress. There is also a pro-Soviet Communist Party, which claims 50,000 of the former 200,000 Lithuanian Communists.

The independent Communist Party, claiming about 100,000, is reckoned by Dr Buracas to be fielding over 400 of the approximately 570 candidates so far registered. Many of these, including the party leader and republican president, Mr Algirdas Brazauskas, support the concept of independence, although there are differences over the timing and methods of its implementation.

Other speakers during the conference spoke of an "economic blockade" of Lithuania by the Soviet Union, with supplies of raw materials and machinery falling substantially below planned targets.

FT writers look at attempts to mould the future face of a continent

Americans turn attention to German reunification

By Peter Riddell and Lionel Barber in Washington

A BIG shift has occurred over the past two weeks in the thinking of US policy-makers towards German reunification, away from a detached view – towards much closer involvement.

Key officials in the State Department and the National Security Council believe the pace of events has accelerated so much, with the continued deterioration in East Germany, that it is no longer possible to regard reunification as a long-term issue for the mid-1990s.

Instead, US officials have concluded that reunification is inevitable, sooner rather than later, and that immediate discussions are needed to decide both an administration line and a framework for discussing the issue among the Western allies, the Soviet Union and the two German states. Administration officials recognise that the US's four points on the principle of reunification set out two months ago now need to be developed, though in no way imposing a blueprint on the form of unity.

Ahead of his visit to Moscow later this week, Mr James Baker, the US Secretary of State, has reached a broad understanding with Mr Hans-Dietrich Genscher, the West German foreign minister, on how to approach the issue, though the US position is still evolving.

Describing the reunification question as "moving towards the very front burner", Mr Bush has ordered an urgent review of options by the National Security Council.

Among the policy-makers there is a sense of ferment and flux parallel to that of the 1947-49 period, when the US committed itself to the defence of Europe, and the Nato alliance was established. Officials are aware that Europe is being remade now as substantially as it was in the late 1940s.

This has been reflected not only in the internal administration debate but also in the increased pace of diplomatic activity. Mr Baker saw Mr Douglas Hurd, the British Foreign Secretary, last Monday, met Mr Genscher at a hastily arranged meeting in Washington on Friday, and will see Mr Roland Dumas, the French Foreign Minister, in Shannon, Ireland, on a refuelling stop tomorrow morning.

Each minister has been determined to have his say before Mr Baker reaches Moscow, not least because of differences of emphasis. There has been particular sensitivity over the position of the Four Powers, the allied victors (the US, Soviet Union, Britain and France) who still have considerable legal responsibilities for Berlin.

West German leaders have wanted to play down the Four Powers' role, though Britain, and to some degree France, believe they must be involved in reunification discussions. Various ideas for linking discussions between the two Germanys and a Four-Power involvement on security issues are being floated.

The British are concerned about a free fall in which events get out of control, and are suspicious of West German eagerness on reunification, and especially of Mr Genscher. British ministers are also worried about whether the Bush Administration will stand firm on troop numbers in Europe in face of congressional and West German pressure for deeper cuts.

The most difficult issues are on the security side – reconciling a united Germany with Nato membership (strongly favoured by Bonn) and combating the call by the Soviet Union and the present East German Government for a neutral Germany.

There has been considerable discussion about how to use the forum of the 35-nation Conference on Security and Co-operation in Europe, which includes Nato, Warsaw Pact and neutral European countries. West Germany has argued that a CSCE conference this year should discuss reunification, but the US (and Britain) have so far been wary about a CSCE meeting until a treaty on reducing conventional forces in Europe is completed and until specific proposals, such as free elections, are on the agenda.

An understanding about the role of a CSCE conference appears to have been reached between Mr Baker and Mr Genscher. The meeting is still regarded by the US not as a negotiating session but more as an occasion to ratify a conventional forces agreement reached in the summer, and to consider discussions on unity between West German and East German leaders.

DEMOCRATIC congressional leaders yesterday backed much deeper cuts in the number of US forces in central Europe than those under the revised proposals announced last week by President George Bush.

Senator George Mitchell, the Democratic majority leader, said the US needed only to "maintain a residual force" in Europe.

He talked of a possible total of 100,000 troops in central Europe by the end of next year as a result of negotiations with the Soviet Union, though not bilaterally.

Kohl elaborates his grand design for the new Europe

By William Dullforce in Davos

MR HELMUT KOHL, the West German Chancellor, outlined on Saturday a framework for the security and economic structure of Europe into which a re-unified Germany could fit without raising the fears of its neighbours or threatening broad East-West interests.

His blueprint would entail the creation of a new security structure spanning both Nato and the Warsaw Pact. This structure could be prepared at the 35-nation Conference on Security and Co-operation in Europe proposed for later this year by Soviet President Mikhail Gorbachev, Mr Kohl suggested.

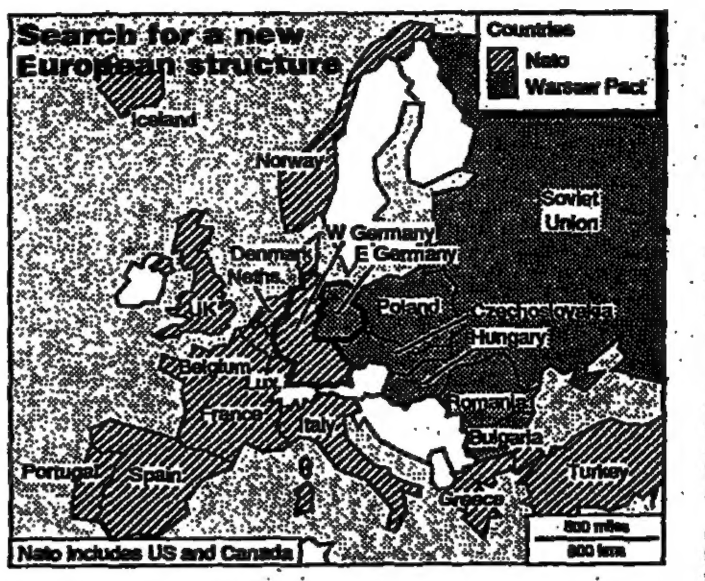
By the autumn, the CSCE could sign new disarmament agreements for the reduction of conventional forces in Europe, Mr Kohl said. It could then take the first steps towards establishing joint crisis prevention institutions and forums, which would provide for regular meetings on security matters at the highest political level.

Mr Kohl was speaking to hundreds of businessmen assembled at the annual World Economic Forum in the Swiss ski resort of Davos, as pressure for the re-unification of the two Germanys accelerated last week following proposals by Mr Hans Modrow, the East German Prime Minister, for a neutral, unified German state, and by Mr Eduard Shevardnadze, the Soviet Foreign Minister, for an international referendum on German reunification.

The Chancellor underlined the increasing urgency of the situation in Eastern Germany, evoking the possibility of an internal crisis which could "overshadow the first peaceful revolution on German soil".

Some 55,000 people had fled to West Germany in January, bleeding East Germany of skilled workers, engineers and doctors. This mass exodus had to be stopped, Mr Kohl said. He raised the issue during the one-hour discussion he held alone with Mr Modrow, who was also attending the businessmen's summit. The two German leaders will meet again in Bonn on February 13 and 14.

Mr Kohl envisaged a future peaceful order spanning the whole of Europe, designed to overcome the division of Europe as well as of Germany. No one could say now what this security structure would finally look like but it had to allow for the legitimate interests of every country, irrespective of its size or geography.



The disarmament process would have to be accelerated, Mr Kohl said, and Nato would have to review its military strategy and structure while the Warsaw Pact would have to change both its strategy and military potential. Starting from the verification of the disarmament agreements, they could focus on more political objectives through the creation of institutions to prevent crises and provision for security policy forums at which regular meetings would be held at the top political levels. The West German Chancellor again firmly rejected the idea of German neutrality. A united Germany should not have a special status in the heart of Europe which would isolate it, he said. Such a proposal could "wipe out at one blow the lessons of history".

The security alliance between Europe and North America remained indispensable. "I think I am right in saying that this is clearly recognised in Moscow, too," Mr Kohl added.

Elaborating his "grand design" for the future Europe, the Chancellor emphasised that West Germany would remain firmly anchored in the European Community. Here its main objectives were to complete the internal market in 1992, to hold the intergovernmental conference on economic and monetary union – about which Britain has misgivings – by the end of 1990 and to see that the European Parliament received greater powers.

But, Mr Kohl said, the EC had to remain open to the reformist countries of Eastern Europe, which had to be brought into a closer and more lasting relationship. This could take a variety of forms, including association. Vigorous development of the Community would offer a model for the integration of all free peoples and as the nucleus of the future peaceful order in Europe.

To help stabilise the current critical situation in East Germany, the Community states could "develop" the special status East Germany had enjoyed since the signing of the Treaties of Rome.

Mr Kohl departed from his prepared text to assure the Hungarians, the Czechs and the Poles, whose leaders were also present in Davos, that, as their political and economic reforms progressed, they would not be forgotten. The Community could not stop at the Elbe, he added. It had to develop a programme for closing the economic and social gap between western and eastern Europe.

Azerbaijan peace deal breaks down

By Mark Nicholson in Moscow

PEACE agreements reached over the weekend between representatives of Armenian and Azerbaijani popular movements in Riga, the Latvian capital, broke down yesterday when Armenian leaders in Yerevan said they would not ratify the meeting's final communiqué.

Tass, the Soviet news agency, yesterday reported claims from the Armenian leaders that Armenian villagers were being forcibly moved from the Khanlar region of Azerbaijan. It quoted the leaders as saying they could not agree to the peace moves until deportations stopped.

The Riga talks, jointly convened by the powerful popular movements of Lithuania, Latvia and Estonia, ended late on Saturday with an agreement to cease hostilities between the neighbouring Transcaucasian republics, which claimed more than 100 lives in January.

Armenian and Azerbaijani representatives in Riga also agreed to exchange all hostages by March 1 and establish permanent links between the two sides. Representatives at the Riga talks formally avoided discussing the disputed enclave of Nagorno-Karabakh, sovereignty over which is claimed by both the Azerbaijanis and the Armenians.

Tass reports yesterday quoted a telegram from the board of the Armenian national movement saying it could not continue talks with Azerbaijan. "Agreements reached during the consultations, including a joint communiqué, will not be ratified by the Armenian national movement and are invalid," the telegram said.

Concerning reports that Armenians had been forced to leave the villages of Kamo and Azad in Azerbaijan, the telegram added: "Joint consultations and talks can be possible in future, only on condition such actions terminate". But while the Riga settlement looked in doubt, there were signs in Moscow that the Soviet Government might be willing to open formal talks with popular front leaders in Azerbaijan.

Comments by Mr Yevgany Primakov, a junior Politburo member who visited Azerbaijan after the unrest, identified moderates in the front leadership with whom Moscow might talk. Quoted by Tass, he said: "We got the impression there are people in this organisation who want democratisation but did not have the courage to denounce militants."

Nato builds base for 'European pillar' in defence

Edward Mortimer in Munich finds a consensus on Europe's future role within the Atlantic Alliance

CLOSER West European defence co-operation within Nato – the "European pillar" – was called for at the weekend by the French and West German defence ministers, by President George Bush's National Security Adviser, and by Nato's secretary-general.

They were speaking at the annual Wehrkunde conference in Munich, attended by politicians and senior officials from all the main Nato countries.

There seemed to be a virtual consensus among Nato governments that the emerging shape of Europe – with a reduced US presence, a united Germany, an unpredictable but still powerful Russia and a potentially unstable Eastern Europe – requires Western Europe to be more closely integrated, and organised for its own defence, within a continuing but evolving Atlantic Alliance.

Among representatives of leading powers, only Mr Tom King, the British Defence Secretary, failed to refer to this in his speech.

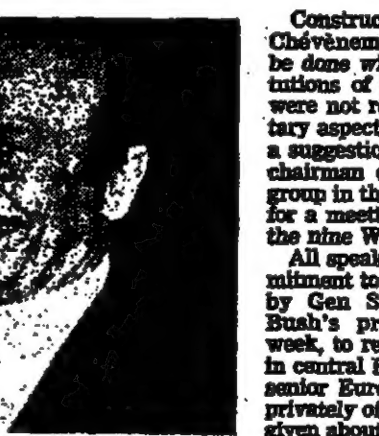
Mr Gerhard Stoltenberg, West German Defence Minister, suggested either "an expansion of the so-called Eurogroup within the overall structure of Nato" (which at present excludes France), or an evolution of the Western European Union (WEU), to which France belongs with eight other European Nato countries.

General Brent Scowcroft, the US President's National Security Adviser, pledged US support for WEU, which he praised for helping to organise a European naval presence in the Gulf. "It's time for a 'European pillar' to be built in the security field, now, more so than ever."

Mr Manfred Wörner, secretary-general of Nato, said the Alliance wanted Western Europe to become stronger and "more coherent", and therefore he wholeheartedly supported European defence co-operation within the Alliance.

But it was French Defence Minister Jean-Pierre Chévènement who expanded most on the theme, saying the goal was to turn Europe into not a military superpower but "a peaceful power working for the stability of the European continent and practising a deterrent policy which is, by that very fact, a non-aggressive one".

Apparently hinting at future



Wörner: backed co-operation

Anglo-French nuclear co-operation, he added: "I think that the Western European countries can reach an agreement concerning this kind of deterrent power which, if in close contact with the American potential, could be used as a pivot by the European defensive bulwark [*mole de défense*], which France hopes to see."

Constructing such a bulwark, Mr Chévènement continued, could best be done within WEU, since the institutions of the European Community were not ready to deal with the military aspects of security. He welcomed a suggestion from Mr Alfred Dregger, chairman of the Christian Democrat group in the West German Bundestag, for a meeting of the chiefs of staff of the nine WEU members.

All speakers welcomed the US commitment to stay in Europe, reaffirmed by Gen Scowcroft, and President Bush's proposal, announced last week, to reduce US and Soviet forces in central Europe to 195,000 each. But senior European officials complained privately of the short notice they were given about this proposal and the lack of opportunity for any real European input into a key Nato decision.

They seemed to doubt the credibility of Gen Scowcroft's assurance that 195,000 would be a "floor" as well as a ceiling for the US, and they noted the blunt warnings from both him and Senator William Cohen that, if Europe concluded US forces were not needed, "you will have to get out of the way of our rush to the exit door".

The other theme of the conference was the consequences for Nato of German unification. All German speakers rejected the idea of German neutrality, but those from the Social Democrat Party alarmed the representatives of allied governments by arguing strenuously for a broader European security structure, including the Soviet Union, which would in due course replace Nato as well as the Warsaw Pact.

Their main argument was that neither the East German public nor the Soviet Union would accept the simple incorporation of East Germany into Nato. Defenders of Nato countered this by arguing, on the one hand, that there was no need to pay any price to the Soviet Union for German unity but, on the other hand, special arrangements could be made so that "forward defence" did not imply the deployment in East Germany of Nato forces.

Some Nato supporters, after listening to this intra-German debate, expressed the fear that Germany's position in Nato might become an issue in the West German election campaign later this year.

Romanian Front leader Brucan quits

By Nicholas Denton in Bucharest

THE BITTER in-fighting which has rent Romania's ruling National Salvation Front claimed another victim yesterday, when Mr Sylvin Brucan quit in anger from the leadership of the Front.

Mr Brucan's resignation followed by only a few days that of the Vice-President, Mr Dumitru Mazilu. The surprise departure of two of the top four in Romania's political hierarchy further weakens the Front's hold on power, already loosened by large protest demonstrations against its ruling monopoly.

Although in his letter of resignation Mr Brucan, 73, reaffirmed his support for the Front, he did not exclude his colleagues from a sharp attack on Romanian politicians. "The honest people stay at home," he said, "leaving the political arena to be dominated by personal ambitions, careerism, and political opportunism."

The focus of the campaign for elections on May 20 was "on personal recrimination and character assassination, threatening to bring the political discourse to the lowest tradition of pre-war elections".

However, Mr Brucan's resignation may not be as final as it seems from the text of his letter. Last night, he had no plans to leave his office in the Front's headquarters, and an aide said he would continue to

Brucan: angry

act as a consultant. "He will always be the eminence grise of the Front, but out of range of attack. He is very smart. He wants to be in the shadows. Now he is untouchable."

Both Mr Brucan and Mr Mazilu were undermined by concerted press campaigns against them in the newspaper Romania Libera. Mr Brucan identified as the prime culprit Mr Octavian Paler, formerly an editor of the newspaper and a member of the Communist Party Central Committee until the revolution; he said Mr Paler had managed to gain control over two important publications despite his enthusiasm for Mr Ceausescu.

Reformist premier for Bulgaria

By William Dullforce in Davos and Judy Dempsey in Belgrade

MR ANDREY Lukanov, appointed Bulgaria's Prime Minister in his absence on Saturday, said yesterday that he aimed to include non-Communists in a government of the broadest national unity possible.

The emergency programme needed to cope with the current economic crisis called for wide public support, and such a government would offer the best guarantee for calm in the period before the first independent parliamentary elections, in May, Mr Lukanov said.

The Union of Democratic Forces, the umbrella organisation for the opposition groups, has previously refused to take part in a coalition government. But it welcomed Mr Lukanov's appointment, suggesting it might now consider joining a government of national consensus as the country prepares for the elections.

Should a broad coalition prove to be impossible, Mr Lukanov said he would form a cabinet with fewer Communists, some representatives of the Agrarian Party and individuals without party affiliation.

Mr Lukanov, aged 51, a former Minister of Foreign Economic Relations and most recently Secretary of the Communist Party central committee, was in Davos attending the World Economic Forum, the businessmen's annual summit.

Andrey Lukanov: will choose a new government this week

He was appointed following the election on Friday of Mr Alexander Lilov as the Communist Party leader at an extraordinary party congress. In a stormy session, the congress dismissed Mr Peter Mladenov, who had been in power since the ousting on November 10 of Mr Todor Zhivkov, Bulgaria's long-standing leader, but who had proved unable to handle the country's growing economic problems.

Mr Lukanov told the businessmen in Davos that a firm decision had been taken in Sofia to introduce full market economy principles – not just a market-oriented economy.

In the immediate future, his government would put in place an emergency programme to restore financial balance, correct the growing deficit on external payments and provide a safety net, to limit the social consequences of the measures.

On the highly sensitive issue of Bulgaria's ethnic Turkish minority, Mr Lukanov said a consensus had emerged that a solution should be based on respect for human rights.

Slovene Communists break from Belgrade

THE COMMUNIST Party in Slovenia yesterday broke from Yugoslavia's ruling party, shattering the unity of the communist movement which has ruled since the Second World War, Reuter reports from Ljubljana.

Slovenia, Yugoslavia's most westernised republic, is the first of the eight republics and provinces to break away from the ruling League of Communists, in what could be a fatal blow for the once monolithic central party.

"This is the end of the League of Communists of Yugoslavia as we know it," Mr Ciril Ribicic, the Slovenian party chief, told reporters after an emergency conference of the Slovenian party.

Delegates meeting in Ljubljana, the Slovenian capital, adopted a motion to change the party's name from the League of Communists of Slovenia (LCS) to the LCS-Democratic Renewal Party, making it no longer answerable to the central party authorities.

This formalised a break with the League of Communists which opened when Slovenian delegates walked out of a nationwide party congress last month, protesting that the organisation was not reforming itself fast enough and was internally undemocratic.

The Slovenian decision dealt a further blow to the central party, which is facing ethnic riots in the southern province of Kosovo, growing nationalism, rampant inflation, and calls for political reform.

Mr Ribicic said he did not intend Slovenia to secede from Yugoslavia, a federation of six republics and two provinces which includes a multitude of ethnic groups. "My party is not on the side of separation but for a Yugoslavia in which the status of the Slovenian republic is equal to that of a sovereign state," he said. "The change of name emphasises our democratic orientation and reformist stance."

He added that yesterday's decision was intended to improve Slovenia's co-operation with other "democratic forces in Yugoslavia", including the republic of Croatia, individual party branches and independent organisations.

Slovenia and the republic of Croatia plan next April to hold the first multi-party elections in Yugoslavia since the war.

Last year, Slovenia was the first republic to allow opposition parties. Its parliament passed amendments to the republic's constitution last September giving it the right to secede, in defiance of federal leaders.

"We want to create the basis for the modern integration of Yugoslavia," Mr Peter Bekes, a member of the Slovenian party's politburo, told reporters.

Oslo announces jobless package

NORWAY'S new three-party coalition Government, struggling to win public confidence amid unprecedented unemployment and scepticism over the pace of treaty talks with the European Community, has announced a package of measures to cut the number of jobless, writes Karen Fossli in Oslo.

It hopes the measures will also stimulate the economy and realign it with the EC's planned internal market. Unemployment has risen to a record 161,616, or 7.7 per cent of the 2.1m workforce.

The Government hopes to set a positive tone before this spring's wage negotiations, in which it is calling for a 3-4 per cent wage agreement.

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OVERSEAS NEWS

Pretoria reforms unlikely to reverse disinvestment

Michael Holman and Hazel Duffy analyse how business may respond to de Klerk's measures

THERE is little prospect of any early reversal of the strategy of disinvestment from South Africa in the wake of the lifting of the ban on the African National Congress and other measures announced by President F.W. de Klerk last Friday.

Barclays Bank, which pulled out of South Africa in November 1986, said yesterday: "Our position has not changed in the last few days."

The international business community was over the weekend still absorbing the implications of Mr de Klerk's speech. Its initial response is likely to be cautious for several reasons.

■ Post-disinvestment links remain close in many cases. On most occasions the departing company negotiated agreements with new owners on licensing, servicing, future technology transfers and use of patents and titles, so that the businesses could continue to perform profitably as a recent study, "Apartheid and International Finance", commissioned by the Commonwealth Secretariat, points out.

If perceptions of the investment climate in South Africa change the likely first response is to upgrade these links rather than provide new capital.

■ Secondly there may no substantial easing in the pressure for disinvestment, particularly powerful in the US where state and federal legislation has penalised ties with the Republic.

Although several Western governments have responded favourably to Mr de Klerk's speech, saying they will review sanctions, disinvestment is more the product of anti-apartheid lobbying than sanctions legislation itself.

In the US in particular, stockholder pressure co-ordinated by church groups, students, universities, and trade unions, backed by a powerful black lobby have led companies to pull out.

The Rev Leon Sullivan, a black Baptist minister, published a code of conduct for US companies operating in South Africa. But in June 1987, the Rev Sullivan said that though the code had been a catalyst for change, he urged total withdrawal.

Another powerful factor in the US is Congress's "Rangel" Amendment of December 1987. This requires American companies to pay US taxes on their South African profits as though they were income earned in the US – that is, without credit for taxes they had already paid in South Africa.

The Commonwealth study estimates that this change in the law cost Mobil $5m (£3m) in 1988. This combination of legislation and boardroom pressure is unlikely to change until South Africa is much further down the road of reform.

Disinvestment from South Africa 1988				
Country	Disinvested and disinvesting	Number remaining	% of Original Total	% of Remaining Total
Australia	22	8	26.6	1.4
Canada	31	6	16.25	1.1
France	11	14	56.0	2.5
Germany	32	109	77.8	19.2
Netherlands, Norway, Sweden, Denmark	24	17	41.5	3.0
Switzerland	5	30	85.7	5.3
UK	132	225	63.0	39.7
US	297	158	34.7	27.9
TOTAL	554	567	50.5	100.0

Figures are cumulative. Counts as a presence in South Africa any holding, direct or indirect, of equity of more than 10% in a South African affiliate
Source: UN Economic and Social Council

■ Thirdly, many foreign businessmen suspect that the days of high return from South African investments are over. Even four years ago, profits from Barclays's associate company, Barclays National Bank (renamed as First National Bank of Southern Africa since Barclays sold its 40 per cent stake) had fallen sharply, and were less than 10 per cent of group earnings. Barclays was subjected to substantial pressure from several groups to disinvest, including the National Union of Students.

The damage being done to its student business was one reason for the bank's decision. At the time, the bank said that the only time that it might reconsider its decision was when all the apartheid laws were rescinded.

The combination of political uncertainties in South Africa, as well as concern about the ANC's recent renewed commitment to nationalisation of banks and main industries, leave most investors and ex-investors cautious.

The bulk of disinvestment from South Africa took place between 1986, when a wave of township unrest began and 1988 – by which time most of the companies vulnerable to pressure had pulled out.

Stocks of foreign direct investment in the Republic have fallen sharply.

Britain is the largest foreign investor (40 per cent of total direct foreign investment) but estimates of the size of the investment vary – affected as it is by different calculations of the book value, and the weakening of the Rand.

One study by Merle Lipton for the Economist Intelligence Unit (Sanctions and South Africa, 1988) suggested that their book value had declined from almost £3bn at the end of 1984 to £2bn at the end of 1985 (mainly due to the fall in the Rand).

British-based companies which stayed include ICI, which owns a trading company and has a 38 per cent stake in AECI, a big industrial conglomerate in South Africa. BP and Royal Dutch-Shell also stayed. They welcomed the political changes in the country as vindicating their decision not to disinvest.

ICI said it had always felt it could contribute more to change in South Africa by staying in the country. "We have felt we could change the system from within by keeping our activities in South Africa," an ICI official explained.

He also stressed that ICI never condoned apartheid and that any move to change the system was very welcome. He added the company had adhered to both the British government's directions and the EC code on doing business with South Africa.

BP sold its South African coal interests last November. However, the British oil group said the coal sale was not part of a broad programme to withdraw from South Africa.

Shell pointed out yesterday that it had publicly called for many years for the abolition of apartheid, the freeing of Mr Nelson Mandela and political prisoners and recognition of all organisations. Last Friday's developments were thus "very welcome".

The political change in the country is likely to be closely watched by the two French car giants – the private Peugeot-Citroën group and the state-owned Renault company – which both withdrew from the South African market.

The two French volume manufacturers are likely to review their approach to South Africa market in the wake of recent attempts by Japanese car producers to expand their penetration there.

US investment in South Africa was valued at $2.6bn in 1981 and has fallen to under $1.5bn in 1987, according to UN figures, while latest estimates suggest it is now under $1bn.

But South Africa's share of US investment abroad is insignificant and the issue is unlikely to have much priority in US boardrooms. It represents less than half a per cent of all American direct investment abroad.

Smiles of non-whites light up the grim streets of Khayelitsha

Patti Waldmeir finds optimism in a shanty town over South Africa's future

SHAPELESS and bleak, built on the shifting sands of the Cape Flats, Khayelitsha is the kind of place which ought not to exist in a new South Africa.

A township of shanties and shacks, and tiny breeze-block houses, the giant high-mast lamp posts which illuminate Khayelitsha give it the air of a prison camp. Forty kilometres from Cape Town, it has almost no shops, no offices, few sports grounds and no entertainment whatsoever except drinking.

President F.W de Klerk has promised the people of Khayelitsha and 25m other blacks, a new political deal. Their saint and leader, Mr Nelson Mandela, is to be freed. Their politicians and political organisations are to be allowed to operate freely.

On Saturday, scarcely 24 hours after Mr de Klerk outlined his new deal, the inhabitants of the township were not dancing in the streets. They were doing what they normally do on Saturday afternoon: standing in their tiny barren yards, or in the streets, gossiping.

But they were smiling. And in their broken English (most of Khayelitsha speaks Xhosa, one of the main African languages), nearly all echoed the sentiments of Patrick, a 32-year-old construction worker and union member. "We feel happy. We feel free."

Some of the women, holding children or carrying washing, were not too sure what the African National Congress stood for, and many did not know it had been unbanned the previous day. But they were certain of one thing: Mr Mandela of the ANC was their leader, and they were ready to follow him to a new South Africa.

One after the other, the residents of Khayelitsha told me they expected their lives to change now. Violence would stop, they said. There would be equal rights. There would be power-sharing. The black man would have access to things hitherto denied him.

Mr Mandela had better be a saint to deliver all of that to Khayelitsha. But whatever the difficulties ahead, Mr de Klerk's speech was the best news non-white South Africans have heard for a very long time.

NEWS IN BRIEF

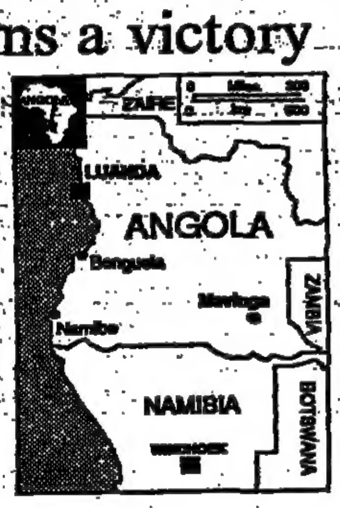
Thai army mediates end to docks strike

Intervention by Thailand's senior military commanders has brought an end to the four-day port strike in Bangkok which paralysed the country's foreign trade, Roger Matthews reports from Bangkok. But it has not yet resolved the issue of whether private companies will be allowed, as the Government has demanded, to operate the city's new deep-sea port when it begins operations at the end of this year.

The involvement of the military has highlighted the even more sensitive issue of relations between the military and the political parties. General Suchinda Kraprayon, the probable successor to Gen Chavalit Yongchaiyudh, as Supreme Commander, yesterday made a biting attack on democracy as practised by the present government, warning against Marcos-style chaos.

Talks are due to be held today on the issue of private companies operating the new deep-sea port which several ministers see as crucial to the Government's long-term privatisation plans. Gen Chavalit said that the return to work agreement with the six unions was negotiated on the basis that both sides went back to square one. The unions see this as a victory.

Luanda claims a victory



The Angolan army has claimed its forces have recaptured the strategic Mavinga airstrip in south-east Angola, the focus of bitter fighting with Unita rebels for a more than a month, AP reports from Lisbon.

Mavinga's airstrip is considered vital for control of the south-east region and the key for any government attack on Unita's headquarters at Jamba, about 120 miles further south towards the Namibian border.

In a statement released in Lisbon, Dr. Jonas Savimbi, Unita leader, denied that Mavinga had fallen, but admitted the situation was "difficult".

Beirut casualties mount

East Beirut was an inferno of explosions, smouldering buildings and burning gas storage tanks yesterday as the savage war for control of the Christian enclave continued unabated for its sixth day, Lara Marlowe reports from Beirut.

According to Lebanese security sources, at least 1,000 of rebel General Michel Aoun's 15,000 troops defected – 600 to the Christian Phalange militia – over the weekend. Aoun himself spoke of "a plot" by two army officers to oust him, but he gave no sign of abandoning his battle against the Christian militia.

In less than a week, the general's attempt to destroy all opposition to his rule in the Christian area has killed nearly 200 civilians – about one fifth the number of Lebanese who died in six months of artillery battles between Gen Aoun and Syrian troops last year. Hospitals in east Beirut had to turn away casualties for lack of rooms, medicines and doctors.

Storms kill 29 people

Violent winds killed 29 people and injured dozens more as they swept across France and West Germany on Saturday, leaving scenes of devastation in their wake, agencies report.

In France, 23 people died when winds as strong as 104 mph tore across Brittany, Normandy and the Paris region, ripping off roofs, blowing down trees and electric lines, cutting electricity to more than 2m people, and closing the two main Paris airports. Six more people were killed as the storms swept into central West Germany. Among the buildings damaged in France was the 12th century Gothic cathedral at Chartres. The wind ripped copper plates from the roof, making a 50 sq metre hole over the nave.

Turkish consul in row

Greece is insisting the Turkish consul in Western Thrace be recalled after he failed to withdraw a note to Greek authorities referring to the region's 120,000-strong Moslem minority as "kinsmen", Kerin Hope reports from Athens.

The consul, Mr Kemal Gur, is accused by Greek officials of contributing to continuing tension between Christians and Moslems in Komotini, where 19 people were injured in violence last week and more than 100 shops, mostly owned by ethnic Turks, were damaged. In retaliation, Turkey has given the Greek consul in Istanbul, Mr Elias Klis, one week to leave the country. The Greeks say his expulsion is a violation of international law.

Bombings in Srinagar

Two bombs exploded in Srinagar during a 12-hour curfew relaxation yesterday, police said, Reuter reports from New Delhi. One blast smashed a bus in the heart of the Jammu and Kashmir state summer capital and shattered shops. A passer-by was injured. A blast in Sopore damaged a building housing paramilitary forces. Some 60 people have died during the past two weeks in clashes sparked by a militant Moslem campaign for Kashmir's independence from India or merger with Pakistan.

■ Sikh extremists held up a bus near Amritsar in the Punjab yesterday, pulled out and shot dead three police guards, then mowed down three of the fleeing passengers, police said.

OVERSEAS NEWS

Brussels faces rough ride in drive for consensus on Japanese cars

Little evidence exists that EC nations are overcoming deep splits on dealing with a threatened flood of imports, Guy de Jonquières writes

THE European Community will make a new attempt this week to overcome deep internal divisions about how to tackle the competitive challenge posed by the Japanese car industry after 1992. The politically vexed issue, closely bound up with EC plans to create a single market, is due to be discussed by foreign ministers in Brussels today and tomorrow.

The European Commission is seeking to establish enough common ground between the Twelve to open talks with Tokyo on some arrangement to prevent a sudden surge of Japanese vehicles flooding EC markets in three years' time.

But though the Commission has repeatedly shifted its approach in a bid to build consensus, little evidence exists that EC governments are converging. In some cases, national positions have become more deeply entrenched. Hence, chances appear slim that the Commission will be able to formulate a coherent set of EC demands to present to the Japanese. Its best hope may be to try to stop splits in the Community's own ranks growing any wider, and to rely on Japan to co-operate in finding a solution.

The Commission's immediate challenge is to find a politically acceptable way to lift the long-standing curbs on Japanese car imports in force in Britain, France, Italy, Portugal and Spain. There is general agreement these curbs cannot remain after 1992, since they would be legally unenforceable in a single market where goods and services flow freely between EC countries.

Mr Martin Bangemann, the West German commissioner for industry responsible for the internal market, originally proposed national curbs be lifted by 1992, and that the EC should freely accept Japanese car imports. In theory, the Commission would be entitled to insist on that course, since most national restrictions require its legal approval. But Brussels is worried this would risk an explosive political confrontation, which could lead some EC countries to defy EC law by continuing, and possibly intensifying, protection of their markets after 1992.

At present, Japanese makes hold about 10 per cent of the overall EC market. Their share is limited to 3 per cent in France – even less in Italy. But in Denmark and Ireland, which have no car industries and no import curbs, the Japanese account for about 30 per cent of sales.

After heavy lobbying by EC governments and carmakers, Mr Bangemann switched tack late last year. He still wants national restrictions removed,

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but is proposing a "transitional" EC-wide limit on Japanese car sales as a step to the eventual goal of complete EC liberalisation. That approach has been endorsed in broad outline by all 12 governments. But great differences remain over the all-important question of how to put it into practice.

EC deliberations on this, as on other trade issues, have been bedevilled from the start by tensions between its liberal and protectionist members. The argument has been further complicated recently by a hardening of the French position.

Mrs Edith Cresson, France's Minister for European Affairs and an enthusiastic "Japan-basher", appears in the past few weeks to have gained the ascendancy over Mr Roger Fauroux, Industry Minister, who favoured a more conciliatory approach. France's tough line is broadly supported by Italy and Spain. More surprisingly, it has attracted tacit backing from Belgium, which has no curbs on Japanese car imports. Though Belgium has no locally-owned car industry, it is host to assembly operations belonging to Ford, General Motors and Volkswagen.

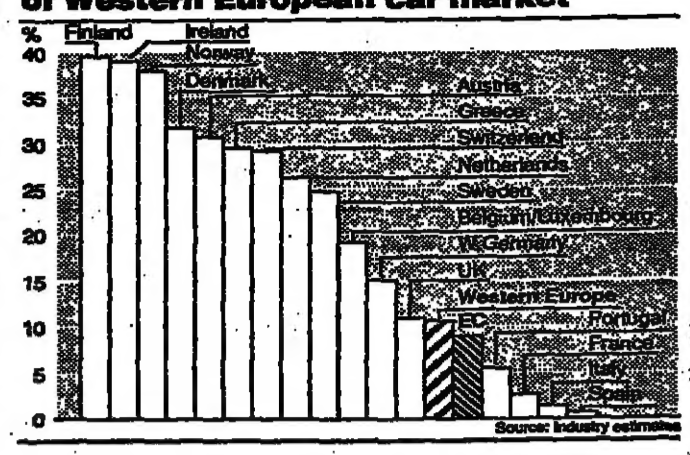
The main issues on which the EC remains undecided are:

● The starting date and duration of the proposed transitional arrangements. Britain, West Germany and the Netherlands want them to last as short a time as possible, though they have not specified how long. France, Italy and Spain want them to run for 10 years.

France also insists the EC should make clear from the outset it would only be prepared to end the proposed arrangements if it judged the balance of trade in cars with Japan to be satisfactory.

● The nature of the arrangements. No agreement has been reached on a mechanism for enforcing curbs on Japanese car imports, how they should be calculated, or what growth should be allowed over their lifetime. Current thinking in the Commission favours an overall EC ceiling set at a level which would prevent sudden dramatic increases in Japanese penetration of restricted EC markets such as France, without curtailing sales on open markets such as West Germany.

Japanese share of Western European car market



Source: Industry estimates

Such fine tuning may be hard to achieve without steps to prevent Japanese cars being freely shipped from "open" national markets to "closed" ones. But such an arrangement would directly conflict with the EC's aim of eliminating all internal trade obstacles after 1992.

● Japanese car production at overseas "transplants". This is politically the most sensitive issue of all, and the one where the EC talks most risk becoming bogged down.

France and Italy, in particular, are anxious that Japanese carmakers be prevented from undermining future EC restraints on their direct exports by increasing deliveries from their assembly plants in the EC, North America or Eastern Europe. Britain and West Germany, by contrast, oppose restrictions on transplants. As well as wanting to defend investments in local production facilities by Nissan, Honda and Toyota, the UK fears that any EC attempt to restrict imports from Japanese car plants in North America would unleash a transatlantic trade war.

The Commission is torn between these opposing viewpoints. It accepts that, legally, cars made at Japanese-owned plants in the EC are European products and cannot formally be included in any restrictions on imports from Japan. Equally, it acknowledges the political dangers of trying to limit imports from Japanese transplants in North America.

But the Commission also judges that it will be politically almost impossible to achieve a consensus between the Twelve if transplants are left completely out of the equation. Even liberals in Brussels concede some way must be found to ensure that any large rise in Japanese carmakers' production in the EC should be matched by a cut in their imports from Japan.

Officially, the Commission has said only that the transplant issue will "have to be taken into consideration" in its planned talks with the Japanese Government. This vague formulation appears intended to keep its options open while it tries to devise a solution. But it seems increasingly unlikely the Commission will table firm proposals on this, or other detailed provisions, when it opens talks with Japan. It has said it requires no negotiating mandate from EC ministers because it does not plan to conclude a formal trade accord.

Instead, Brussels appears to be counting increasingly on the Japanese to help the EC out by entering into an unofficial understanding, which would commit them to restraining their car sales in the Community.

The EC's disunity and confusion may prove its strongest card. As the Commission will doubtless argue, failure by Japan to exercise prudence over car sales in the next few years could harm its own longer-term interests.

If Japan did not offer satisfactory assurances on cars, the EC's fragile cohesion could disintegrate completely, prompting its more protectionist members to barricade their national markets. That would imperil the ultimate aim of a unified European market free of external trade barriers. Japan appears to have got the message. According to reports from Tokyo late last week, its government is prepared to go along with restrictions on its carmakers' sales in the EC after 1992, provided they do not extend into the next century.

But there would also be clear risks attached to entering into the kind of non-contractual understanding on managed trade which Brussels seems to have in mind. Not least would be the problem of terminating an arrangement which, strictly speaking, had never existed.

Bush seeks to end split on global warming issue

By Peter Riddell, US Editor, in Washington

PRESIDENT George Bush and his senior advisers were yesterday seeking to resolve a split within his Administration over the global warming issue, in advance of a speech he is due to deliver on the subject to an international conference in Washington this morning.

The speech was originally planned as a full statement of the US position, stressing Mr Bush's desire to take the lead on global warming before a series of international discussions. This week's meeting of scientists and officials on the Intergovernmental Panel on Climate Change set up by the United Nations will be followed by negotiations later this year in the US on a framework convention on reducing the gases produced by the burning of coal and oil.

Mr Bush, who has presented himself as the environmental president, has proposed spending $1bn (£625m) on climate-change research as well as planting 1bn new trees a year.

Mr William Reilly, head of the Environmental Protection Agency, and other senior officials have proposed that Mr Bush take a strong line, emphasising the proposals the US has already made and is prepared to take.

But Mr John Sununu, White House Chief of Staff, has sought to rewrite the original draft to take a more sceptical stand, highlighting the uncertainties of predicting that world temperatures will rise because of these gases.

Mr Sununu, who has clashed with Mr Reilly several times, has led the criticism by conservative Republicans against the warnings of environmentalists which, they argue, are exaggerated and based on uncertain scientific data. Hence Mr Sununu and his allies maintain that a dramatic shift in energy sources is unnecessary.

He said on TV yesterday that "faceless bureaucrats on the environmental side" favoured policies which would cut off the use by the US of coal, oil and natural gas. The argument over the speech affects how far the US is able to take a leading role in international discussions on these issues.

Scrap MFA, Tokyo to tell Brussels and Washington

JAPAN will table a proposal today challenging the US and the European Community to end the politically sensitive Multi-Fibre Arrangement limiting world trade in textiles and clothing, and include textiles under the General Agreement on Tariffs and Trade as soon as possible, Robert Thomson reports from Tokyo.

The proposal argues that resolving the textile issue is "a key factor governing the outcome of the Uruguay Round" of multilateral trade talks, and world textile trade must be liberalised in the interests of developing countries.

The submission will be presented at a Geneva meeting of the textile negotiating committee under Gatt. Japan hopes it will prompt the US and EC to think more seriously about scrapping the MFA, due to expire on July 31 next year. "All restrictions based on the present MFA should, in principle, be eliminated by the end of July 1991."

It accepts that a sudden end to the MFA could produce an unacceptable surge in textile exports, and provides for phasing out curbs on textile exports, with total integration under Gatt rules "by the end of 1999 at the latest".

Curbs during transition to Gatt should be governed by objectivity and strict procedures, limited application, limited duration, automatic phase-out mechanisms, and equity.

Japanese party leaders launch general election campaigns

JAPANESE party leaders over the weekend officially launched their campaigns for a general election later this month – the ruling Liberal Democratic Party's most vital poll test in 35 years, Stefan Wagstyl reports from Tokyo.

A record 953 candidates will contest the 512 seats in the Diet's lower house on February 18. The LDP, which won 304 seats in 1986, hopes to retain its majority with 257 or more seats. The opposition parties, including the largest, the Japan Socialist Party, which won 86 seats last time, are fighting to overthrow LDP rule.

In polls last year, opposition parties took control of the Diet's upper house for the first time since the 1950s. LDP support had plummetted because of an unpopular consumption tax, controversial farm policies and the Recruit financial scandal, but has since recovered. Mr Toshiki Kaifu, Prime Minister, has performed well, while the socialists have failed to capitalise on last year's successes.

The result is seen as close, with independents and centrist parties holding the balance of power. Sixty-six women candidates are standing. The socialist party, led by Miss Takako Doi, is fielding six women. The LDP is fielding none.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

					% change over previous year
	Dec '89	Nov '89	Oct '89	Dec '88	
US	115.4	115.0	114.6	113.5	+1.7
Japan	120.7	120.8	119.7	117.1	+3.1
W Germany	115.2	112.5	112.2	109.3	+5.4
	Nov '89	Oct '89	Sept '89	Nov '88	
France	113.8	112.6	111.2	110.1	+3.4
UK	111.4	112.0	111.0	110.7	+0.6
	Oct '89	Sept '89	Aug '89	Oct '89	
Italy	119.2	119.5	121.0	118.0	+2.8

Source: (except US) Eurostat

UK NEWS

BUILD-UP TO BRITAIN'S MARCH BUDGET

Conservative MPs oppose increases in tax

By Philip Stephens, Political Editor

GOVERNMENT supporters at Westminster are overwhelmingly opposed to tax increases in next month's budget despite a consensus that Mr John Major, the Chancellor of the Exchequer, should set lower inflation as his first priority.

A Financial Times survey of the ruling Conservative party's MPs shows that most agree that Mr Major - whose personal standing is shown as extremely high - would be justified in ruling out reductions in income tax when he unveils his first budget on March 20.

Surprisingly, a large majority *are* also against any increase in the £30,000 ($50,400) ceiling on home mortgage interest tax relief. The Prime Minister is widely thought to favour such an increase.

Three-quarters, however, reject suggestions in the Treasury that the Chancellor should reinforce his efforts to slow the pace of price rises by not uprating personal tax allowances in line with inflation.

Increases in income tax are regarded as too damaging politically, with the Government *lagging behind Labour* by about 10 percentage points in the opinion polls and its supporters concerned about the introduction in April of the poll tax, which will replace local government charges.

In parallel, a growing feeling that the Government *must* respond to the demands of voters for better public services is reflected by the *fact* that almost half of the MPs believe it should use part of its surplus to increase public spending.

The MPs' views have been conveyed to Mr Major and his Treasury team in a series of almost-daily meetings during the past two weeks. Living up to his reputation for listening *attentively to the opinions* of government supporters, Mr Major has allowed every Conservative MP time to put his or her view directly to a Treasury minister.

The FT survey attracted replies from 102 Conservative MPs, *representing* 27 per cent of the Government's total of 373 seats in the House of Commons.

The survey shows that most Tory MPs are confident that Mr Major has time to turn the economy round before the general election which must be *called by mid-1992. Some* 94 per cent are either "very confident" or "moderately confident" of a significant improvement.

More than half – 56 per cent – say interest rates are too high, while 42 per cent are resigned to the current squeeze on borrowing and spending.

Two-thirds agree that lower inflation should be Mr Major's *first priority* in the run-up to the election, although a similar majority argue that he should not freeze the excise duties on petrol, alcohol and tobacco.

Substantial minorities are also concerned that the Chancellor should introduce incentives to boost industrial investment and encourage personal savings.

Mr Major's popularity is attested to by 85 per cent of the respondents who described his performance so far as Chancellor as either "excellent" or "good." No one chose the option "disappointing," although one dissident chose to write in "boring."

Chancellor John Major

London expects big fall in government public debt repayments

By Simon Holberton, Economics Staff

THE CITY of London is bracing itself for the possibility that the Government's budget surplus will be much lower than expected in the 1989/90 financial year. This might force the Bank of England to resume selling gilt-edged stock in the coming financial year.

Some City economists believe the surplus this year could be less than half the £14bn forecast by the Treasury in March and well down on the Treasury's revised forecast of £12.5bn published in November.

The Treasury will publish full data on last month's public sector debt repayment (PSDR) on February 16. But figures published daily by the Bank of England, which mirror a large part of the Public Sector Borrowing requirement, suggest the Exchequer's tax take was up to £3bn lower than in January 1989.

Warburg Securities and NatWest capital Markets forecast a fall in the PSDR to around £4.5bn or less in January - £3bn smaller than in January 1989. This decline reflects lower-than-expected receipts of corporation tax.

Warburg believes this is part of a permanent change in the Government's finances and *that the 1990/91* budget surplus will be much smaller than the £10bn which the Treasury forecast in last year's budget statement. In this situation the Bank might have to issue up to £5bn of gilts next year.

Mr Stephen Hannah, at NatWest Capital Markets, argues that much of the erosion of the budget surplus reflects "one off" factors, although he agrees that the PSDR is past its peak. But the budget surplus will rebound next year and the Bank will not have *to issue gilts, he says.*

Mr John Major, the Chancellor of the Exchequer, hinted two weeks ago that that the budget surplus was contracting faster than expected when he said the outturn for 1989/90 would be "somewhat" less than the forecast in the Autumn Statement, the Government's forecast for the economy.

At that time the Treasury had no clear idea of the extent to which it would undershoot. But with the last of the corporate taxation payments for January being made last week it *has become clear that revenues have* declined substantially.

Still unknown, however, is whether local authorities and public corporations have continued *to borrow at the* rate indicated over the last months of 1989.

If this has happening then the PSDR could be even lower than some securities houses are assuming.

Rover looks at first round-the-clock car production in UK

By Kevin Done, Motor Industry Correspondent

ROVER GROUP, the leading UK car producer, is considering the introduction of three-shift, round-the-clock working on one of the car assembly lines at its Longbridge, Birmingham, plant in the Midlands – the first such move by a UK vehicle maker.

Rover would be following the example of General Motors (Vauxhall/Opel). GM became the first car producer to introduce round-the-clock working at a European car assembly plant two years ago with a successful three-shift assembly at its Zaragoza assembly plant in north-east Spain.

General Motors is following this experiment by moving to a similar 24-hour assembly pattern at its Bochum car plant in West Germany with effect from April. It will be the first car producer to make such a radical move in the Federal Republic.

European car producers have been seeking far-reaching reforms of working practices at assembly and components *facilities* in an effort to increase production capacity without building expensive plants to cope with record demand.

Rover has approached unions at the Longbridge plant to introduce round-the-clock working on its Rover 200 assembly line, which also produces the sister car, the Honda Concerto, for the Japanese car maker.

The initial response from the Longbridge workforce has been to call for a 35-hour week in return for agreeing to the radical change in shift patterns.

Mr Joe Carroll, convener of the *Longbridge* plant, said: "We are not opposing three shifts, but to get them in they will have to reduce to a 35-hour week."

Rover has been unable to cope with the strong demand for the 200 since its launch late last year.

Despite the addition of a second shift two weeks ago, which is expected to increase production to 3,700 a week by the end of this month, and eventually to a maximum of 4,600 a week, the group believes it will need additional capacity.

The range is being launched successively in continental European markets, and further derivatives, such as the Rover 400 saloon and a planned coupé, will be introduced later this year.

Mr George Simpson, Rover managing director, said: "Demand is such that we are actively looking at three-shift working as a planning exercise."

The Rover 200/400 investment programme was planned and approved on a two-shift basis.

Round-the-clock working would be "a bonus and a benefit," said Mr Simpson.

Mr Simpson said Rover would expect to make a final decision on the plan within three months.

Rover employs about 2,500 people on two shifts on the 200 assembly line; a move to three-shift working would create additional jobs.

Financial incentives to encourage NHS to refurbish older hospitals

By Alan Pike, Social Affairs Correspondent

THE GOVERNMENT will tomorrow encourage a shift away from new hospital building in favour of the refurbishment of existing facilities, many of which have been neglected in recent years.

Until now capital in the NHS has been treated as a "free good," with health authorities facing no continuing charges from the cost of building new hospitals. This approach is due to be replaced by a more commercial system of charging for capital assets in April 1991.

However, Mr Roger Freeman, junior Health Minister, will tell the Commons standing committee considering the National Health Service and Community Care Bill tomorrow that a "shadow system" of capital charging is to be introduced in April – having the effect of imposing stricter financial discipline on health authority managers.

Ministers believe the new system of capital charging will give health authorities financial incentives to refurbish existing hospitals rather than build new ones. Mr Freeman will also outline plans to encourage authorities to brighten up hospitals, making them more attractive.

Accountants throughout the NHS are preparing asset registers ready for the move to capital charging. The exercise has not yet produced a grand total, but when it does it is likely to show that the service has buildings and equipment valued at up to £50bn.

However, the NHS has a maintenance backlog in excess of £1bn. Health authorities, operating within cash-limited budgets, have recently tended to devote all available money to patient services. Many face huge maintenance backlogs – Canterbury and Thanet nearly £57m, Enfield £51m, Central Birmingham and Frenchay in the south-west both £38m.

Mr Freeman said he accepts that maintenance has often been neglected.

"In the past there has been a temptation to solve this problem by eventually closing hospitals and building new ones.

"Sometimes this is the right solution - it is good to replace uneconomic, half-empty Victorian institutions with purpose-built community units. But it is often far more cost-effective to modernise than rebuild. The NHS has more than 1,000 listed buildings among its estate, so there are many where demolition is not an option."

At Farnborough Hospital in Bromley, Mr Freeman saw how at a cost of £60,000 a large traditional maternity ward had been adapted to a unit with rooms ranging from two to six beds. This compares with a cost of £1m-£1.5m per ward to build and equip a new hospital.

In addition to the changes produced by capital charging, health authorities face another incentive to upgrade rundown buildings. The health reforms will introduce a funding system based on competitive contracts and patients are being told they will have greater choice. Health service managers realise that few will choose to be treated in buildings with peeling paint and water dripping from ceilings.

Ashley Ashwood

The Rev Jesse Jackson in front of the Nelson Mandela statue on London's South Bank. The US politician gave an address yesterday at St James's Church, Piccadilly, where he spoke about new hope in South Africa following the historic speech by President F. W. de Klerk.

Drink sponsorship rules may change

By Alison Smith

THE Government is set to toughen the voluntary agreement with the alcohol industry about its sponsorship of sporting events.

The result is expected to be an agreement of the industry to use their non-alcohol and low-alcohol brands in such sponsorship wherever possible, rather than full-strength brands as at present.

The initiative is due after the meeting this week of the Ministerial Group on Alcohol Misuse, chaired by the leader of the Commons, Sir Geoffrey Howe.

The Government is expected to approach The Portman Group, an alcohol industry organisation, to seek its co-operation. The Group was set up last October by Allied-Lyons, Bass, Courage, Guinness, International Distillers and Vintners (IDV), Scottish and Newcastle, Seagram and Whitbread, with the task of tackling alcohol misuse.

Its director is Dr John Rae, former headmaster of Westminster School.

While previous suggestions for tightening the rules about alcohol sponsorship have foundered, the industry's development of a greater range of non and low-alcohol beers and lagers, is one of the reasons for raising the issue again now.

It has also been suggested that Mr Nicholas Ridley, Environment Secretary until last July, and now Trade and Industry Secretary, would have opposed putting fresh restrictions on sports sponsorship by the alcohol industry.

Tory backbenchers want Major to present deflationary Budget

By Philip Stephens, Political Editor

TWO THIRDS of Conservative MPs believe that Mr John Major, the Chancellor, should put the defeat of inflation at the top of his list of priorities when he unveils his first Budget on March 20.

An FT survey of the views of the Government's supporters underlines the growing consensus at Westminster that high inflation and a large trade gap will force Mr Major to rule out tax cuts.

It shows that since taking over as Chancellor last October after the resignation of Mr Nigel Lawson, Mr Major has won the confidence of the vast majority of backbench Conservatives. Some 85 per cent judge his performance since then as either "excellent" or "good."

There is also considerable confidence that despite the economy's present troubles, the Government can rely on a significant improvement in the outlook by the time of the general election due by mid-1992.

Some 75 per cent of the 102 Conservative MPs who completed the FT's questionnaire replied that tax cuts should not be a priority this year. The replies represent 26 per cent of the Government's total strength in the House of Commons and 35 per cent of its backbench supporters.

The MPs, however, were equally adamant that Mr Major should not go into overkill in his reaction to the twin problems of inflation and the trade gap by deciding to raise the burden of income tax.

Although most of the respondents believe that the Government should aim to keep a large budget surplus, nearly half think that there should be higher spending on key public services.

One of the intriguing results of the survey is that a large majority of the MPs are against any increase in the £30,000 ceiling on mortgage interest relief.

It has long been accepted at Westminster that Mrs Margaret Thatcher, the Prime Minister, would have pushed up the ceiling had it not been for the fierce opposition of Mr Lawson. It now appears, however, that despite the obvious attraction for homeowners, such a move would have the backing of only about a quarter of Conservative MPs.

There is a similarly strong consensus that Mr Major should act to raise excise duties on products such as petrol, alcohol and cigarettes this year, even though that would give a renewed boost to inflation.

The survey shows that a substantial minority of backbench MPs also want the Chancellor to consider measures in the Budget to promote savings and to encourage industry to invest.

Uppermost in MPs minds, however, is the current level of interest rates. Some 56 per cent say that, at 15 per cent, rates are too high. Against that, 42 per cent agree that Mr Major has to keep them at that level to curb inflation.

Only one brave soul says that borrowing costs are too low.

Sample of 102 MPs

1 What should Mr Major set as his first priority in the budget:
Defeat of inflation: 66
Help for industry: 22
Measures to promote saving: 17
Lower interest rates: 10
Other: 13

2 Should cuts in income tax be a priority?
Yes: 25
No: 75

3 If yes should they focus on:
Basic rate: 16
Higher rate: 2
Allowances: 20

4 Is it important that the Government maintains a large budget surplus?
Yes: 64
No: 31

5 Should some of the surplus be used for:
Tax cuts: 30
Additional public spending: 49

6 Should Mr Major consider raising income taxes by not increasing allowances?
Yes: 21
No: 76

7 Is the current level of interest rates:
Too high: 56
Too low: 1
About right: 42

8 Should Mr Major increase mortgage interest relief?
Yes: 28
No: 69

9 Should he raise excise duties in line with inflation?
Yes: 74
No: 24

10 Are there other tax changes he should make?
Reduce/abolish stamp duties: 29
Raise investment allowances: 10
Cut/abolish inheritance tax: 14
Cut/abolish capital gains tax: 26
Other: 9

11 How confident are you that the economic outlook will improve significantly before the next election?
Very confident: 43
Moderately confident: 51
Pessimistic: 6

12 What is your judgment of Mr Major's performance as Chancellor?
Excellent: 34
Good: 51
Fair: 6
Disappointing: 0
Other (unproven/boring): 8

Results shown in rounded percentages. The totals do not necessarily add up to 100 because in some cases MPs have not answered every question and in others have chosen more than one option.

Adams backs IRA 'armed struggle'

By Kieran Cooke in Dublin

MR Gerry Adams, MP for West Belfast and president of Sinn Fein, the IRA's political wing, has ruled out his party dropping its support for the "armed struggle" as a pre-condition for peace talks with the British Government.

Speaking at Sinn Fein's annual conference in Dublin at the weekend, Mr Adams said Sinn Fein – unlike the British administration in Northern Ireland – had a democratic mandate to represent the political views of its constituents.

"To demand that we condemn armed struggle as a pre-condition for our inclusion in talks, is a pretext for delaying the inevitable," he said.

Mr Adams said there was no question of a retreat from Sinn Fein's aim of a united Ireland. To sustained applause from delegates, he said that the Northern Ireland Secretary, Mr Peter Brooke, had gone so far as to admit that there could be no military defeat of the IRA.

The British army fights in a lost cause, Mr Adams said. "They have tried for 20 years to kill us, to imprison us, to marginalise us. They have tried to isolate us, to outmanoeuvre us.

"They have tried to censor us, to buy us off, to patronise us. And they have failed, again and again."

Mr Adams also strongly criticised the Irish Republic's Government, accusing it of collaborating with Britain.

Builders see cut in output after years of expansion

by Andrew Taylor

TWO SURVEYS published today provide evidence that the recession in UK house building is spreading to other sectors of the construction industry.

The latest survey from the Building Employers' Confederation shows a sharp fall in new inquiries for construction work in London and the surge in office building in the capital appears to be drawing to a close. Only 1 per cent of contractors in London reported an increase in inquiries for work during the last three months of last year.

According to the survey development prospects look a little brighter in the north of the country, although it expects the recession to spread north by the end of the year.

It says construction output across the country as a whole is expected to fall by at least 3 per cent this year, reversing the trend of rises in every year since 1981. It is concerned that rises in construction output have created too much space.

A separate survey by British Aggregate Construction Materials Industries (BACMI) shows that sales of sand, gravel and stone fell by up to 7 per cent in the last three months of last year compared with the final three months of 1988.

That association says the downturn in demand for aggregates and ready-mixed concrete reflects a slackening of construction activity. Sales of aggregates for 1989 rose to record levels, however.

South-east worst hit by downturn, says report

By Hazel Duffy

THE GAP between the north and south of the UK could continue to narrow if the slowdown in the economy does not intensify into a more general recession.

Business Strategies, an independent group of economists, confirms in a report published today that the south-east is suffering disproportionately from the combination of the Government's high interest rates policy, and reliance on services.

Regions such as the West Midlands, East Anglia, Scotland and even Northern Ireland are relatively healthier either because of their greater dependence on manufacturing, making them less vulnerable to the domestic downturn, or because they are less exposed to the impact of high interest rates on mortgage costs and consumer spending.

But the forecasters warn that there is a serious risk of a deeper recession, accelerated by wage inflation. A serious decline in international competitiveness would act to the detriment of regions whose manufacturing base has served them well in the last year.

If this proves to be the case, the prediction is that the regions which are now relatively healthy would be hard hit, and they would be the last to emerge from recession, as happened in the 1980s.

Mr Nicholas Ridley, Trade and Industry Secretary, has argued that there will be a boost to the regions with the new uniform business rate and revaluation of properties. That, however, will not deflect the Labour Party, which plans to attack Mr Ridley in the Commons, this week, for his plans to cut back regional aid to industry.

Last week's white paper on public spending showed DTI expenditure on regional and general industrial support scheduled to fall from £372m this year to £300m.

UK Regional Planning Service. Business Strategies, 10 Kendrick Mews, London SW7 3HG.

THE RISE in interest rates is costing home owners in London more than £1,200 a year, according to a survey by the Labour Party. Throughout the UK, mortgage payments rose by at least £400 a year, it said.

More than 54,000 mortgage payers were over six months in arrears and 6,350 were repossessed in the first half of last year.

Holiday Inns in £50m hotel deal

By David Churchill

HOLIDAY INNS International, the hotel chain owned by the Bass brewing group, yesterday announced a £50m investment deal to open a further 12 of its Garden Court budget hotels in the UK over the next four years.

Holiday Inns has signed an agreement with Commonwealth Hotels International to develop the Garden Court hotels in the UK. Commonwealth Hotels is the largest UK franchisee of Holiday Inns.

Quality may decide ITV licences

By Raymond Snoddy

MR David Mellor, the Home Office minister responsible for broadcasting, yesterday gave the clearest indication so far that quality of programmes, not just the highest bid, could determine who wins the new commercial broadcasting licences.

Mr Mellor said that quality was the single most important "exceptional circumstance" to be considered by the Independent Television Commission, the body that will replace the IBA, when deciding whether the 10-year licences go to the highest bidder.

The Broadcasting Bill now before Parliament specifies that new licences for Channel 3, as ITV will be known in future, go to the highest bidder except in exceptional circumstances.

"The primary exceptional circumstance in my judgment is quality," Mr Mellor emphasised yesterday in an interview with David Frost on TV-am.

Mr Mellor added that if a bidder soared over the initial quality threshold "an exceptional circumstance could well be that somebody was exceptionally better qualified on programming such as would justify the ITC preferring his bid."

He conceded that some lawyers insisted that under the bill as drafted quality was not included as an exceptional circumstance although he said it was a moot point if further definition were needed.

The issue comes up in the committee stage of the bill this week and if, Mr Mellor said, he thought there was a need to change the wording he would "go into discussions with my colleagues and try to persuade them on that view."

Today Mr Robin Corbett, Labour's broadcasting spokesman, will call on Mr Mellor to translate his apparent change of mind into amendments to the bill.

Mr Richard Dunn, chairman of the ITV Association and managing director of Thames Television, emphasised yesterday that the ITV companies had always supported a form of competitive tender for the new franchises but one in which quality weighed as strongly as money.

Abbey National float criticised

MEMBERS OF Abbey National, the second largest building society until its stockmarket flotation last year, would have done much better out of the change if the society had been taken over by an outside bidder, says a report out today.

The report, by Morgan Grenfell, the merchant bank, says the free shares given to Abbey members would have been worth about £240 instead of £140 had Abbey not also raised cash. Had the society been bought, each member would have received £500 or more.

The report says the building societies sector will become smaller in the next few years.

Building Societies: Learning from the Abbey National: Morgan Grenfell, 23 Great Winchester Street, London EC2. £50.

IoD proposes reform of taxes on benefits

By Simon Holberton, Economics Staff

A THOROUGH overhaul of the taxation of benefits has been urged on Mr John Major, the Chancellor.

The Institute of Directors' submission proposes reforms to rationalise and remove distortions in the tax treatment of benefits and expenses.

It says that expenses reasonably incurred by employees in pursuit of their employment should be deductible from gross salary or wages.

The Treasury should allow tax relief on childcare expenses, the IoD adds in its submission. The lack of relief makes it uneconomic for women to work.

The taxation of company cars should also be changed. The general level of scale charges should be increased to achieve an appropriate tax on the "perk" element in the car. But the business mileage threshold, above which the scale is halved, should be cut from 18,000 miles to 12,000.

More Black Country smokestacks tumble

Richard Tomkins ponders on the West Midlands' future as the last steelmaker closes

IT rated barely a headline and went almost unremarked, but last week's announcement that F.H. Lloyd Engineering Steels, of Walsall, was to close with the loss of 178 jobs marked the end of the steel making industry in the West Midlands.

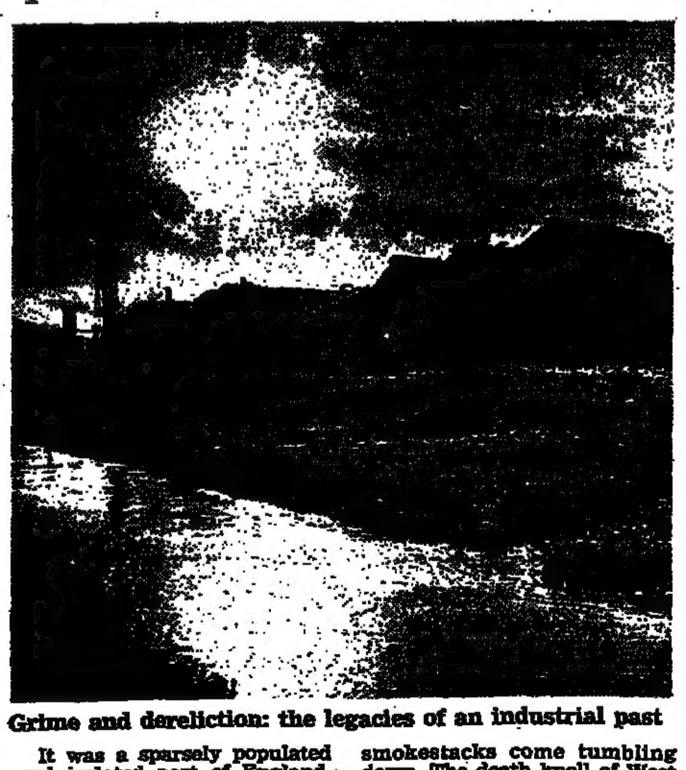
In its heyday, the plant was the biggest in Europe and was one of a dozen on the grimy Black Country landscape, sprawling out between Birmingham and Wolverhampton. Latterly, however, in a much-shrunken state, it has been distinguished by being the last.

Appropriately, perhaps, the three-paragraph announcement that constituted the final chapter in its history was accompanied with as little fanfare as the opening two centuries earlier.

There were few headlines in 1709 when Abraham Darby, the Quaker ironmaster then working in the Coalbrookdale area of Shropshire, discovered the secret of smelting iron ore over coke instead of charcoal.

The implications of his discovery were immense. Charcoal was costly and in short supply, while coke was plentiful and cheap: its use opened the way to large-scale iron production, in turn giving birth to the industrial revolution.

Mass production of iron began in the East Shropshire coalfield, but by the 19th century it had begun to edge eastwards into the present-day West Midlands conurbation to tap the abundant deposits of iron ore, limestone and coal in south Staffordshire.



Grime and dereliction: the legacies of an industrial past

It was a sparsely populated and isolated part of England, but was transformed by the mushrooming iron and steel trades into what it remains today: the foremost centre of metal-related manufacturing.

Local folklore says that the smoke belching from the chimneys of a thousand furnaces gave the Black Country its name a century or more ago. Yet that name is increasingly losing its meaning as the smokestacks come tumbling down. The death knell of West Midlands steel making was sounded in the mid-1970s when the then British Steel Corporation embarked on a programme of investment in five large integrated steelworks – Llanwern, Port Talbot, Ravenscraig, Scunthorpe and Teesside.

Two oil price shocks and the consequent recession of the early 1980s were soon to leave the industry with massive overcapacity, and it was inevitably the smaller, older and more labour-intensive steelworks that closed.

In the Black Country they fell like ninepins. Patent Shaft, a subsidiary of Laird, closed in 1980 along with British Steel's Bilston plant and Duport's Oldbury operation. British Steel closed its Tividale plant and the Round Oak works in 1982, while F.H. Lloyd closed its Dudley works in 1984.

By 1987, F.H. Lloyd Engineering Steels was the only primary steel producer left in the region – and this because it was a specialist manufacturer of continuously cast and rolled steel billets for Black Country tube makers and forgers.

In that year what remained of F.H. Lloyd was taken over by Triplex Foundries, the quoted engineering group. It sold the steel making plant to United Engineering Steels, the special steels group owned by British Steel and GKN.

By that time the Lloyds plant occupied only 15 acres of its former 100-acre site next to junction nine of the M6. The rest was gradually cleared by Triplex, which has set up a property division to turn it into a £50m shopping and business development.

With United Engineering Steels' decision to close its Walsall plant and transfer output to its better-equipped South Yorkshire operations, it seems probable that the plant will be demolished and the site – which still belongs to Triplex – merged into the larger scheme for redevelopment. It would become part of a trend that is transforming the face of the Black Country just as industrialisation did 200 years ago.

With the closure of each steelworks that once unashamedly disfigured the landscape, plans have been drawn up for replacing it with another glistening out-of-town shopping centre.

Where once the Round Oak steelworks in Brierley Hill employed 3,000 men, the Richardson twins – a pair of Black Country entrepreneurs – have built the Merry Hill Centre, which with an area of 1.8m sq ft is one of the biggest out-of-town shopping complexes in Europe.

Speyhawk and the Alton Group have been given detailed planning consent to turn the site of the Patent Shaft works into a 4m sq ft integrated leisure, entertainment and shopping complex called Sandwell 2000.

Ikea, the Swedish furniture concern, has signed up to become the flagship store on the Triplex site.

Traditionalists decry the replacement of the Black Country's manufacturing industry with service sector schemes like these. However, shopping centres do bring jobs: some 5,000-6,000 at Merry Hill and an estimated 8,000 at Sandwell.

In these ecologically-conscious times, they are also a lot kinder to their environment than ever the steelworks were. Now someone had better start thinking of a new name for the Black Country.

THE FERRANTI AFFAIR

Unguided missile which crippled Ferranti

The corporate catastrophe which brought Ferranti International, one of the great names of world electronics, to its knees, was hatched in a chicken shed by a farmer's boy who learned electronics. His name is James Guerin.
This morning shareholders are gathering at an extraordinary general meeting to consider a £187m rights package prepared by the company before it sold its key radar division to GEC for £310m.
The meeting at Ferranti's headquarters in London will give shareholders a new opportunity to question the board about the events which led to the discovery of a £215m fraud on their company.
Richard Donkin and **Charles Leadbeater** *take up the tale*

THE ONCE obscure defence company at the heart of the Ferranti scandal has turned into the corporate equivalent of an unguided missile

As International Signal and Control, the international arms group which began life in a US chicken farm, fell to earth it showered debris upon an apparently unsuspecting British business establishment.

ISC's explosive potential was publicly uncovered last September when Ferranti International, its UK parent, disclosed a gaping hole in its balance sheet. Ferranti, which acquired ISC in 1987, says it was the victim of a cleverly-orchestrated £215m fraud involving three fraudulent contracts and a string of at least 12 bogus sub-contractors.

Mr James Guerin, ISC's elusive founder, denies that he cheated Ferranti and claims that the hole was created by customers refusing to make payments on real but unenforceable contracts.

Whichever it is will be decided in court. What is not in doubt is that, as ISC's order book grew to $1bn (£594m), it left a trail of corporate devastation in its wake. Ferranti is suing Mr Guerin and four other former ISC employees for $198m. It recently launched legal action against Peat Marwick McLintock, ISC's auditor, accusing it of negligence.

The hole left in Ferranti's balance sheet has forced the company into a series of emergency deals with its bankers and drove it to declare a £15.4m loss for the first six months of this financial year. This month it had to sell its key defence systems division to rival GEC-Marconi for £310m in an effort to secure the group's future.

Was Ferranti unable to see it was plotting its own *downfall in planning* the ISC merger?

Smith New Court, the broker, is suing Citicorp, the bank, over its purchase from Citicorp before the controversy erupted, of Mr Guerin's shares in Ferranti.

ISC is being investigated by at least two US grand juries, the US customs, Inland Revenue Service and the Pentagon.

United Chem-Con, a US company which Mr Guerin helped to established, is also being investigated by a grand jury as is his sons' company. The British Serious Fraud Office is looking into the affair, while the UK Customs and Excise's special investigations division, which deals with large scale fraud, is inquiring into Ferranti.

There was something deeply wrong at ISC before the takeover. The investigations and legal action will disclose why Peat Marwick McLintock, one of Britain's leading accountants gave ISC's books a clean bill of health. ISC easily won a listing on the London Stock Exchange, attracting leading institutional investors such as Guardian Royal Exchange. Ferranti, a leading name in British electronics and engineering, was eager to take it over.

Why were Ferranti managers unable to see that in planning the ISC merger, they were actually plotting the virtual downfall of their own company? After the merger could Ferranti have moved more swiftly to clean out the can of worms for which it had just paid £420m?

How could such a suspect company lodge itself so comfortably within the embrace of the British financial and industrial establishment?

Ferranti's first link with ISC was in 1981 when the two companies signed a marketing agreement. It was to be the first meeting between Sir Derek Alun-Jones, Ferranti's chairman and chief executive, and Mr Geurin, the homespun American businessman.

In 1986 the the two companies began their first serious merger talks. However, Ferranti called off that deal after spotting the first of a series of problems at ISC.

Ferranti complained that ISC was far too aggressive in claiming current profits on secret, long-term contracts which were years from completion and final payment. Ferranti insisted it reduce profits claimed in 1986 on the contracts. ISC shares fell by a quarter. The irony for Ferranti was that it had made ISC a more affordable acquisition.

Ferranti executives may have spotted that initial accounting problem. But they were unaware of more troubling developments at ISC.

● In April 1985 Dr Victor Cohen, a senior official in the US Department of Defence's procurement division, sanctioned a $17m order to Marquardt, an ISC's Californian subsidiary, to build casings for cluster bombs.

Sooner Defence, of Lakeland, Florida, one of Marquardt's competitors claimed the deal had been unfairly channelled towards the ISC subsidiary. An investigation was launched by the Defence Criminal Investigation Service, which brought in the FBI and the Justice Department. By the time Ferranti acquired ISC in 1987 the investigation had been running for two years.

● That was not all. United Chem-Con, a Lancaster fuse manufacturer, was also under investigation by a grand jury for fraud. Mr Guerin helped to establish the company, sat on its board and held a 20 per cent stake in it.

Ferranti says it checked on ISC's credentials with the Department of Defence before the takeover but was not told anything untoward. It says the British Ministry of Defence did not raise any objections. However the FT understands that Sir Peter Levene, the head of UK defence procurement, had severe doubts about ISC.

The proposed acquisition did not pass without question on the Ferranti board. Mr Sebastian de Ferranti, grandson of the company's founder, commissioned a report from Lazard Brothers, the merchant bank, which urged caution over the acquisition.

Just before the takeover doubts about the contracts were raised at an ISC board meeting in May 1987, when directors probed Mr Guerin for details on the highly secretive contracts. Ferranti says it now knows that by this stage ISC's value had been considerably inflated and tens of millions pounds could not be accounted for.

CHRONOLOGY

Jan 71:	James Guerin founds ISC
Jan 81:	Ferranti-ISC sign reciprocal marketing agreement
Aug 83:	ISC acquires Marquardt, California, for $45.5m
Oct 82:	ISC London listing
Apr 85:	US Defence Criminal Investigative Service launch inquiry into Marquardt defence contract
Sep 87:	Ferranti acquires ISC for $420m
Nov 87:	ISC calls in independent lawyer to check contract
Jul 88:	Ferranti lawyer questions ISC executives
Jan 89:	James Guerin briefs Ferranti chairman on problems
Aug/Sep	Ferranti scours order books and checks on customer countries
11 Sep:	Ferranti shares suspended
18 Sep:	Serious possible fraud disclosed
29 Sep:	Suspect contracts at £215m, forcing £185m write-off
3 Oct:	Shares resume trading
20 Oct:	Serious Fraud Office launches investigation
17 Nov:	Revised accounts published
12 Jan:	Ferranti reports £15.4m first-half, pre-tax losses
23 Jan:	GEC buys Ferranti radar division for £310m

Mr Guerin told his fellow directors at ISC they would have to trust him. The church-going entrepreneur did indeed inspire trust. He had attracted Mr David Checketts, a former Royal equerry, to serve as an ISC executive. Mr Alexander Haig, former Secretary of State and Nato commander general was an ISC consultant.

To Ferranti he was a man of his word, having repaid handsomely on a $1m loan Ferranti made to ISC before the merger.

City analysts were seduced by ISC's apparently growing order books and profits. But most importantly Ferranti relied on Peat Marwick McLintock, the accountants to the Royal Family, who had vouched for ISC's books.

So Ferranti pressed on to pay £420m for a company which it now says had zero net worth at the time of the purchase and had made no net profits in the five years before the merger.

One of the main attractions for Ferranti was Mr Guerin's ability to call on an extensive network of well-placed contacts to sign international arms deals. As it transpired it was that which led to Mr Guerin's, and very nearly Ferranti's, downfall. It did not take long for ISC to begin its sharp turn for the worse. There were two related problems.

First there were the three suspect contracts:

● A contract with the United Arab Emirates to provide guided missiles.

● A deal to sell unused inventory from the UAE deal to China.

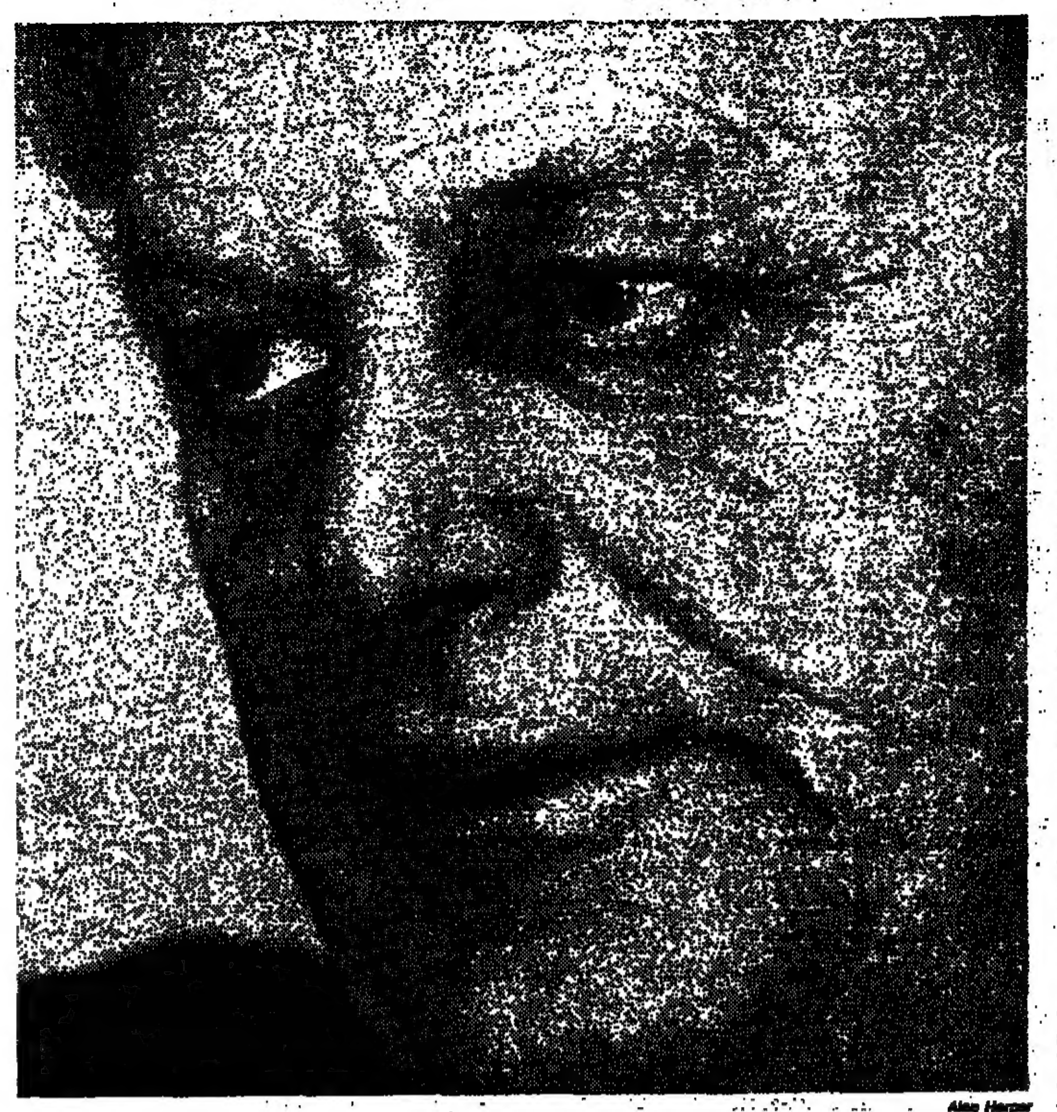
● A Pakistani contract to deliver missile technology.

Interwined with these contracts was a second cause for concern. ISC's trade with South Africa had led to Grand Jury investigations in the US. ISC had long-standing contacts with South Africa. In the company's early days Barlow Rand, the South African electronics group bailed ISC out with a loan, subsequently converted into ISC stock, which Barlow Rand went on to sell. Mr Clyde Ivy, an ISC director and Ferranti board member, worked for South African arms companies before moving to the US.

Ferranti says that it only became concerned in August last year that the contracts might be fraudulent. Sir Derek Alun-Jones said the first inkling that there was something amiss with the contracts came in the first half of last year. Yet Ferranti first became aware the contracts were creating managerial disquiet at ISC well before the fraud was unveiled to an unsuspecting City in September.

One man in particular seemed concerned about the accounts for the contracts. Mr Jim Deitch, a senior ISC financial executive, was deeply troubled by what was going on around him.

In November 1987 Mr Deitch raised his concerns about his personal liability over representations made in connection with the UAE contract. Before the end of the year he questioned Mr Joe Zilligan, ISC's finance director, where $128m purportedly spent on the UAE contract had gone to. He was particularly concerned that it was difficult to authenticate the value of stock and components apparently purchased for the contract. That dubious inventory was to become a running sore for ISC and Ferranti.



Alan Harper

Sir Derek Alun-Jones: impressed by Mr Guerin's ability to sell unwanted stock

Ferranti became aware of the worries about the UAE contract in the summer of 1988. Mr Alan Cooper, Ferranti's London corporate lawyer, visited ISC twice that year to discuss that contract and the deal in Pakistan. In May and June of 1988 Mr Charles Scott, Ferranti's finance director, also visited ISC to inquire about $160m which had been spent on the early stage of the UAE contract.

The worries did not go away. Mr Guerin said in his testimony that he became aware of a "general concern" in autumn 1988 at Ferranti about what the $200m final development costs for the missile had been spent on.

Mr Guerin could call on a network of contacts to sign international arms deals.

The other reason why Ferranti might have been concerned about what was going on at ISC were the subpoenas summoning ISC executives to give evidence to investigations into illegal shipments to South Africa contravening the UN embargo and US restrictions on goods which could have a strategic military use.

Mr Richard Dunn, Ferranti's lawyer in the US, held several meetings with witnesses in late 1988 to prepare their testimony. It accepts that ISC did export to South Africa. But it does not accept that ISC's dealings in defence equipment went beyond the date of the takeover.

In spite of the mounting problems at ISC it appears Ferranti did not attempt to strengthen its management control of its US subsidiary. It should be said that it faced a considerable obstacle in the shape of the proxy board, appointed under the Pentagon's orders for security reasons to act as a buffer between ISC and Ferranti.

In 1989 the contracts began to unravel. In January Mr Guerin went to London to present Ferranti's chairman with an unappetising account of the state of the three deals. They had left a $300m hole in ISC's books.

From that point on, a full seven months before the alleged fraud was publicly unveiled Ferranti could have been in little doubt that there were problems with the contracts.

The first difficulty Mr Guerin said was that ISC had bought components for the UAE contract, which had been signed in May 1984, which had become redundant because the design for the missile had changed in midstream. The redundant inventory was what had concerned Mr Deitch.

Mr Guerin claimed to have then signed a deal with Norinco, a Chinese company, to use the inventory to manufacture the missile under license. Sir Derek was apparently impressed by Mr Guerin's ability to sell unwanted stocks.

However, according to Mr Geurin the deal depended on Ferranti finding a third country customer for the missile. It failed he said and this left a $100m shortfall.

A second problem had surfaced with the Pakistan contract which Mr Guerin claimed to have signed in May 1986 with General Zia al Haq, Pakistan's then president. General Zia's death in a plane crash in 1988, the winding down of the Afghanistan war and the political change underway in Pakistan meant ISC was facing a $200m loss on the contract, Mr Guerin explained.

Ferranti says it was aware there were payment hiccups, which were quite normal on long-term contracts. Mr Guerin says he made it clear to Ferranti that there were severe collectability problems with the contract. They were so urgent that he suggested Ferranti should put $150m towards a $350 management buy out through which Mr Guerin would take back almost all ISC's businesses.

Mr Guerin said in his testimony: "I looked at the LBO [leveraged buy out] as the last chance I had to save the situation that had built up into problem areas with Ferranti. I looked at it as the last combination that we had to, in effect, save that situation. and frankly save me."

Ferranti was aware that Mr Guerin made several trips to sort out the purported contracts, visiting South Africa, China, the UAE and Pakistan.

Ferranti appeared to have been appeased as the payments from supposed customers temporarily restarted. But they tried to make further checks. Mr Scott made two trips to Pakistan where he interviewed Major General Talat Mashud, the head of Pakistan's defence procurement.

As one Ferranti executive said: "If you visit the Head of Defence procurement to discuss an arms contract and he tells you it is alright, you would be crazy to go to the defence secretary seeking reassurance. You do not go around questioning your customers as to why they are paying you."

Mr Scott returned reassured although General Mashud may not have fully understood why Ferranti was expressing concern. General Mashud ha since said that there may well have been fake Pakistani contracts but that he knew nothing about them.

Mr Guerin's buy-out plan, which he said was based on a promise from the UAE Royal Family that the privately owned ISC would win large contracts, collapsed and in May he and Mr Ivy resigned from the Ferranti board. Mr Guerin sold Ferranti shares soon after.

Ferranti says it realised it was in trouble when it found that three of the main companies ISC dealt with Eleverton, Navarino and Lerwick Holdings, all registered in Panama City, were dissolved on August 1.

There are several explanations for why Ferranti's attempts to check on the contracts failed to uncover the alleged fraud earlier, why the warnings signals about ISC were never followed through.

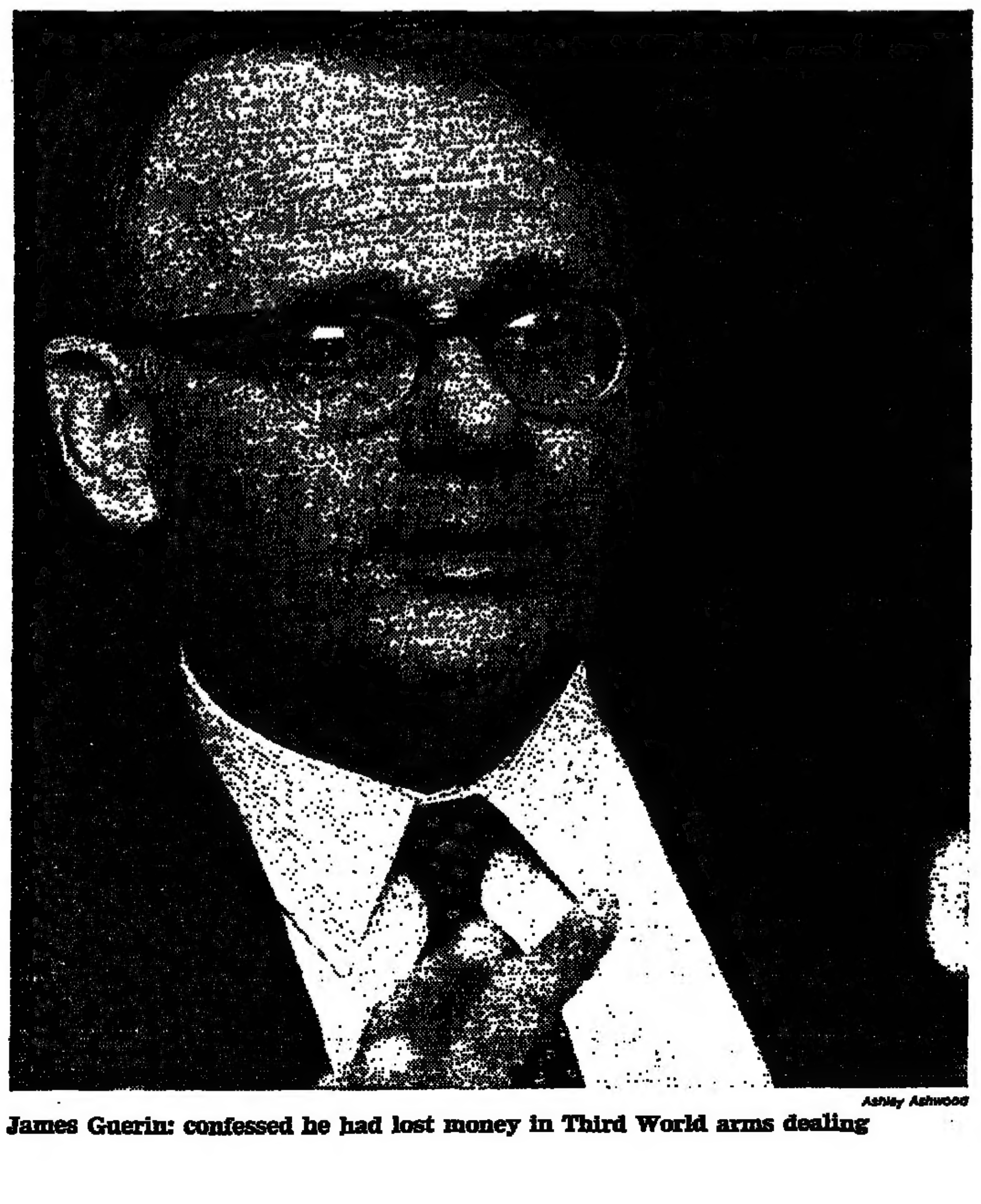
The main explanation is that the alleged fraud was extremely cleverly orchestrated. It started with apparently faked sales contracts which triggered payments to at least 12 purported sub-contractors, which had offices in Belgium, South Africa, West Germany and Chile.

About half the £215m was simply circulated around the ring of sub-contractors through Swiss back accounts to maintain the appearance that contracts were being worked on, it seems.

Ferranti alleges that the source of the money to keep the fraud going was ISC's growth. As new contracts were signed part of the money paid up front was diverted to maintain the suspect contracts which had been signed earlier. This way Mr Guerin could keep alive the idea that he had signed impressive contracts, in the hope that something would turn up to fill the gap.

There is no sign of where this money went to. One theory put forward by some Western observers is that it was used for a covert arms operation run by an intelligence service.

Whether the Ferranti affair turns out to be a question of fraud or gross mismanagement, Ferranti did not perpetrate it. Ferranti attempted checks with some customers and relied upon Peats to vouch for the accounts. Yet it seems remarkable that in spite of a stream of subpoenas, investigations and internal warnings within ISC, Ferranti managers did not see there was something rotten in ISC and did not move more quickly to cut it out.



Ashley Ashwood

James Guerin: confessed he had lost money in Third World arms dealing

Human face of the ISC founder

Richard Donkin examines the God-fearing, guy-next-door image of James Guerin

MR JAMES Guerin, the 59-year-old founder of International Signal and Control, remains an enigmatic figure in the Ferranti affair. For a man accused by Ferranti of helping to perpetrate a £215m fraud on the company he is demonstrating remarkable coolness.

In Lancaster, Pennsylvania, his home for 20 years up to last May, he is revered in the same way that children think of Santa Claus. However, last Christmas he ran out of presents.

You do not have to seek out admirers of Mr Guerin. They are everywhere. A waiter in one of the town's most upmarket pubs said: "All I know is that he helped my dance group, as far as I'm concerned he is a great guy.

Mr Guerin has been back to Lancaster at least four times in the past six months. Every time he has sung with the choir of his church, the Landisville Church of God, whose Christian fundamentalist congregation believes the Bible is the unassailable word of God.

While he cultivated the "guy next door" image in Lancaster as a personable, sober, God-fearing family man, traits demanded within this Pennsylvania Dutch community, there was another side to him which gives a clue to his capacity to spend.

He was a generous party-giver. One of his former employees remembers the Guerin's planking over their pool to host a dinner for 100 guests. Then there were the three company jets, known in the company as "the ISC air force" and the helicopter he frequently used.

Mrs Bulah Docherty, an elder of the church, described Mr Guerin as top drawer. "He would often give money to pay for church outings but he didn't want anyone to know, he wanted to give for the sake of it," she said.

His philanthropic donations in Lancaster are thought to have amounted to about $10m (£5.94m) in seven years.

This was from a man whose business dealings came close to the edge of collapse more than once in their early years. "I have seen the black hole," he once told a newspaper. On one of these occasions, a former ISC manager said, Barlow Rand, the South African electronics company bailed him out.

Mr Guerin was born in Morristown, New Jersey. The son of a farmer, he graduated in agriculture from Rutgers University, New Brunswick, and later in electrical engineering from the University of Arizona, before going to work for Lockheed Electronics company from where he transferred to Lockheed Missile and Space Corporation.

He left in 1969 to become general manager of the systems division of Hamilton Watch, a Lancaster fuse company, working in the highly competitive and aggressive world of military fuse production.

While working there he made friends and contacts for the future, people such as Mr Carl Jacobson who would become his brother-in-law, Mr James Christian, who he helped to set up in business, and Mr Terry Byrne, whose son would work for him.

A former colleague explained: "The fuse business is a pretty small world. Everybody who supplies fuses to the military meets up regularly for drinks in the America Defence Preparedness Association. That's where they talk business."

Mr Jacobson, who ran Rep Com International, a one-man electronics sales company, is awaiting sentence after he admitted bribing a US Navy official to obtain a defence contract.

Mr Christian is serving a six-year jail sentence for taking part in a scheme to defraud the Defence Department of $12m during his time as president of United Chem-Con, a now bankrupt defence company which Mr Guerin helped to establish.

Mr Byrne is back in business in the US with Byrne Industries, his New Jersey company, after an earlier arms dealing venture collapsed in the UK with debts of more than £9m.

Messrs Guerin, Jacobson, Christian and Byrne had more than friendship in common. All four were intimately acquainted with the the international arms trade which was boiling with activity during the 1980s. Many of the grey market arms dealers were centred in London where they would deal by telephone using separate off-shore companies to service individual deals.

This is the world in which Mr James Guerin found himself embroiled by the time he brought his privately owned ISC business to the London stock market in 1982. He began dealing with supplier companies, registered in Panama but based all over the globe, many of them in Europe. Ferranti now says that five of those Panamanian companies were used to perpetrate the fraud.

In a speech to Lancaster Optimist Club in 1982 he confessed he had already lost money in the high risk business of Third World arms dealing. The company suffered a $200,000 loss when two of its pilots were arrested in the Philippines on their way to Malaysia. They were later released. About the same time he briefly courted Pakistani defence officials for another deal but failed to win the contract.

He had become closely connected with South African arms manufacturers but he made sure these dealings and his business with Third World customers were strictly concealed.

When he decided to go public he had no intention of reporting his dealings to the Securities Exchange Commission which required disclosure of any deal worth more than 5 per cent of a company's sales.

So he opted for the London Stock Market where "going public" did not mean quite the same thing. He started his business in the basement of his house in 1971, setting up a production line in a chicken shed, making test equipment for transceivers. "I begged, borrowed or stole as much money as I could get together," he said afterwards. From the very beginning he was bidding for communications related defence contracts.

His international meanderings in the defence business brought him in contact with the CIA whom he would seek out to give briefings. When ISC went to the UK stock market Mr Bobby Inman, the former deputy director of the CIA, agreed to serve on ISC's proxy board, needed as a Chinese Wall between the US defence department and what had become a foreign company.

Mr Guerin set out to establish a personal friendship with General Zia Al Haq, the Pakistani President. "They had a shared interest in parapsychology and spiritual things," said a Pakistani businessmen who had been close to Zia before the general's death in August 1988.

"But they would never have had business dealings," said the businessman. "General Zia employed others to do that."

Mr Guerin left Lancaster in May to make a new home with his wife Helen in the millionaire's quarter of Naples, a fashionable coastal community in Florida. He had resigned from the Ferranti board and was trying to buy out the troubled subsidiaries but his financing collapsed when Ferranti refused to lend him money for the deal.

Ownership of the house has been transferred to his wife. His shares in his private company, Parent Industries, now Urban Industries, have been sold to his former partner but according to company records his wife is still on the board.

MANAGEMENT

Construction equipment

Unorthodox minnow takes on the giants

Nick Garnett on Terex's acquisition and turnround strategy

"Terex can no longer be regarded as a curious or suspiciously successful company."

That comment made by a New York analyst last year suggests that something of the abnormal attended the astonishing rise of the Terex Corporation. It also indicates that the manufacturer of extra large earth-moving and hauling equipment, based at Green Bay, Wisconsin, has been rehabilitated by some people in the hard-bitten machinery sector as a good industrial citizen.

Randy Lenz, former real estate developer and foreman in a metal forging plant, purchased a stake in an obscure and bankrupt US crane maker called Northwest Engineering seven years ago. By 1986, with Lenz the majority shareholder, the company still had annual sales of just $25m but was back in profit.

Four years on and Lenz has used this unpromising vehicle to build, through acquisition, a business with sales of over $1bn a year and 10,000 employees, but with a net book value of just $85m and a debt load of $233m.

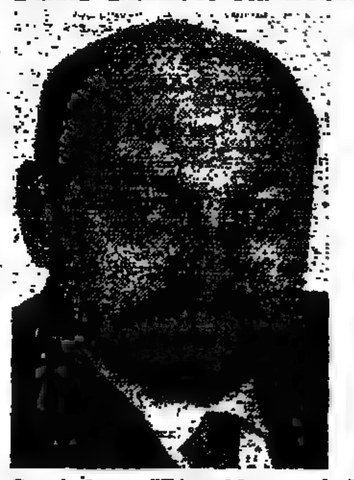
"Well $85m might not sound much but it's a lot when you started with zilch," says Lenz, a short, stocky 42-year old who looks like a blue collar worker, but now a very rich one.

In the process, Lenz's company has acquired several equipment makers, including Fruehauf, the world's largest truck trailer maker and Terex, the former General Motors construction machinery division. The Terex name was then adopted for the whole mini empire in which Lenz owns over 50 per cent of the stock.

The strategy for creating this group from virtually nothing has been the same at every turn: selection of acquisitions where big improvements in profitability and cash-flow can be squeezed out through consolidation of manufacturing space, reducing capacity to below demand, and dropping unprofitable products.

Mitch Quain at Wertheim Schroder, the New York analysts, says three features are common to these acquisitions. They are all companies with significant machine populations and therefore strong "after-markets" for parts; they make specialist machines rather than volume products and each company has a strong brand name.

These companies, which include Bucyrus, a dragline and crane maker, Koehring, which makes big excavators, and Unit Rig, which has a range of products centring on dump trucks up to 270 tonnes, have been acquired by borrowing large amounts of cash.



Randy Lenz: "Everything we do is plain ordinary common sense. I don't think there is any magic. You identify what is necessary to make a profit in a global market."

The acquisition last year of Fruehauf, which quadrupled Terex's group sales, was achieved through an investment of $10m in equity and $190m in debt.

Managers in the same industry have raised eyebrows at the progress of Terex. The question is whether a company with this financial structure can survive in such a fiercely competitive industry packed with both large producers like Caterpillar of the US and Komatsu of Japan and a host of small and medium-sized makers, many debt-free and family-owned.

The group still makes a low return – an $18m profit last year on sales of $750m.

And though the Terex division of the Terex group makes some modern articulated dump trucks, many of the group's other products have not been redesigned for many years. This question has been further reinforced by general suspicions in the industry about the long-term commitment of Lenz, who remains somewhat of an outsider in a rather incestuous-ness global industry.

Lenz expresses no doubts about the future of the company or its financial structure. "I like some debt. If you get rid of all your debt it is difficult to get enough yield on your investment. I am interested in return on my dollars and on assets employed. We do not have to make acquisitions to make money." Lenz, who lives in Florida where he has a 45 ft sailing boat and a collection of British sports cars of the 1950s, says the debt is manageable. "We are not leveraged. Anything but. Cash flow is two times debt service though I would not say we exactly want this present debt level. Anyway, it will come down by $100m in the next two years."

He points to a series of financial and managerial improvements within the group. Almost every company purchased by Terex was in debt and most are now or are about to come into profit. Bucyrus had effectively stopped trading.

His philosophies are simple. "Profit must be the first priority. Everything we do is plain ordinary common sense. I don't think there is any magic." Fancy theories about "synergy" and the need to build dominant market positions in particular products make Lenz's eyes glaze. "I don't buy that. It's a lot of mullarky. We don't do things for strategic purposes. As for market share, we don't pay a lot of attention to that. You identify what is necessary to make a profit in a global market."

Some of the changes have been straightforward rationalisation. For example, the North American manufacturing operations of the group's Terex division was shut down and production centred on the division's Motherwell plant in Scotland. Some of the former Northwest Engineering sites have been shut. At Fruehauf, another loss-maker, 2,000 jobs out of 7,500 are being cut, some of the company's 100 sites in North America are being disposed of and its US shipyards sold. Lenz expresses a cold, if perhaps practical, view on one of the shipyards. "We asked for work rule changes. The unions said no so we closed it."

These changes have gone hand-in-hand with efficiency improvements which the industry recognises as largely beneficial for the companies involved. Lenz shakes his head at what he sees as gross stupidity by earlier managements at some of the companies he has bought.

"At Hudson, Ohio, Terex had built a facility to make 2,000 crawler tractors a year. They kept saying, 'hey, we are going to make these.' The year before we bought it they had built 17. Seventeen, can you believe it?"

The US market for truck trailers is falling. Trailers which Fruehauf has recently failed to make money on have been dropped. The company made 37,000 trailers last year and will make 10-15 per cent fewer in 1990, Lenz says.

Changes in component sourcing have also been introduced. At Northern Engineering, booms for cranes and draglines are now out-sourced. But at Fruehauf, under Terex ownership, some components like axle hangers have been brought in for manufacture. Some $50m of working capital has been removed at the trailer maker.

Lenz says one of his aims is to improve product lines and manufacturing technology. "One of the reasons these companies were faltering is that they did not improve product lines. About 80 per cent of the Terex division's product line is different from when we bought it. Eight new products are coming out from there this year."

A lot of emphasis at the Terex division has been placed on the articulated dump truck, with the number of models expanded from one to four. "Since 1987 we have quadrupled our share of a growing market for the artic." The same thing has happened at Koehring, he says, where output of hydraulic cranes has more than doubled in the past two years. Lenz also claims that, apart from Fruehauf, the companies he has purchased began re-hiring after initial job cutbacks and now employ more than when they came into the Terex group.

A good deal of money, some from the Scottish Development Agency, has been spent re-equipping the Motherwell plant; Lenz says there was only one shopfloor machine less than 12 years old when the site was purchased.

Lenz's close involvement with all significant capital investments within the group reflects more than a wish to maintain tight financial control. It also results from his interest in product policy - he may claim to have a rather cavalier attitude towards strategy, but he is aware that you cannot survive by selling poor, overpriced products to construction and mining companies.

The rise of Terex has rekindled people's memories of IBH, the West German construction machinery mini-empire built up by Dieter Esch which finally fell apart in the early 1980s (though its disintegration was partly bound up with fraud, and no-one questions the financial honesty of Terex). But Lenz brushes aside any worries about Terex's future. "We are long term operators," he declares.

Executive search

A self-defeating cordon

Simon Holberton seeks a definition of 'off-limits'

Headhunting is a curious trade where, it seems, there is safety in promiscuity.

The headhunter's self-imposed code of ethics – that he will resist raiding a client for prospective talent for two or three years – drives him ever onward to seek more clients, and forces the client to protect himself by using the services of more than one lest his executives in turn fall prey to the headhunters' blandishments.

The practice of putting clients "off-limits" is common among European and US firms involved in executive search, to use headhunting's more dignified title. According to a recent study published by The Economist Publications* in Europe, more than 80 per cent of clients are offered a two year guarantee of immunity from being raided.

The question is, if a headhunter offers immunity, how many other companies – companies which might contain the person you want – enjoy the same status?

This is a problem that cuts both ways. A client is potentially at a disadvantage if it is not aware that whole slabs of industry are off limits to it. For the headhunter, the greater the *cordon sanitaire* he has offered his pool of clients, the less the opportunity for him to find the right executive and deliver the appropriate service.

But there are signs that headhunters have begun to realise the essentially self-defeating nature of the problem and that change, of a glacial sort, is occurring. The Economist survey found that the definition of "off limits" is narrowing.

While most search firms still offer nationwide immunity, the study found a number of cases where immunity is being restricted to divisional level; it cites one case where the off-limits guarantee was applied to just 15 of the company's top executives. Multinational search firms offer global search immunity to only 5 per cent of their clients.

This is just one aspect of the executive search business which the authors of the study throw into high relief. But there are others which show that the business is facing challenges of internationalisation which will force its members to think about fee structure, the networking of data-bases, and alliances or affiliations with other firms. This is especially so in the context of the 1992 single market plans.

Although most of the top firms are multinational, their operations are geared to serving the market in which they are situated. In the current circumstances foreign offices are activated usually after considerable effort has been spent in discovering that there is a dearth of local talent to fill a position.

The involvement of an affiliated office raises the problem of having to make "fee splits", precisely at the point where the profit earned from a search has already diminished. For firms which pay end-year success bonuses to consultants, the prospect of fee splitting could therefore act as a disincentive to offer clients a full international service.

A solution to this problem – which is not wholly obvious – would go some of the way to cementing the necessary inter-office communication that the study suggest exists in multinational search firms today. But once the financial reward aspect of an international search is sorted out, the decisions on compatible computer systems, for example, ought to be easier.

At the user level the survey reveals a large amount of dissatisfaction with headhunters. But the lack of a corresponding section on how headhunters evaluate their clients makes a fair picture of the relationship difficult to obtain.

The three most frequently cited criticisms of headhunters, say the researchers, were that: insufficient effort was made on behalf of the client; they had an inadequate understanding of the client's needs; and that the assignment took too long.

Clients may indeed not be as open with their advisers as they ought to be. Executive search suffers just as much as a computer in its output being constrained by the quality of initial input. It is of little use for clients to claim that their needs are not understood if they are not fully open from the start.

The Economist study is particularly poor in this area and fails to give a balanced account of headhunting. The beauty contest it conducted of top headhunters ought also to be treated with some caution.

The accompanying table purports to be the first such ranking to be made public. It certainly provides food for thought. But close attention should be paid to the sample size. The Economist estimated that Egon Zehnder, for example, conducted 500 assignments between 1987-89, yet only 19 of Zehnder's clients responded to its survey – the response rate was generally low. It seems odd that while Zehnder has a 75 per cent repeat business track record in the UK it should have scored so lowly. This would seem to raise questions about the report's methodology.

*Executive Search and the European Recruitment Market, The Economist Publications, 40 Duke Street, London W1A 1DW. £92.

Top Ten Executive Search Firms

Firm	Points	No. of clients replying	Times placed 1st or 2nd	% clients placing firm 1st or 2nd
Goddard Kay Rogers	93	25	15	60
Norman Broadbent	77	15	12	80
Egon Zehnder	67	19	10	55
Russell Reynolds	58	16	8	50
Spencer Stuart	42	13	6	46
Whitehead Mann	34	7	7	100
Heidrick & Struggles	31	8	5	62
Boyden	24	6	4	67
Korn/Ferry	24	8	3	38
Tyzack & Partners	24	8	3	38

Source: The Economist Publications.

CONSTRUCTION CONTRACTS

Upgrading Birmingham's water supply facilities

Severn Trent Water has awarded a £50m contract to extend its Frankley water treatment works in Birmingham to two TRAFALGAR HOUSE GROUP companies.

The contract, awarded by Severn's wholly-owned subsidiary, Severn Trent Water, is going to Trafalgar's Cementation Projects, which will undertake the design and construction of the civil engineering works, and to John Brown Engineering, specialists in process engineering.

Frankley is one of the largest water treatment works in Britain, and supplies about 70m gallons of water a day to more than one million people. Planning for the project began in 1987 and work will start early this year, with completion set for 1993. Severn Trent is one of the 10 water and sewage businesses in England and Wales privatised by the UK government last December.

The Frankley project is part of a £4bn capital investment programme planned by Severn over the next 10 years to meet UK and European Community water standards. The plan was set out during flotation.

£21.5m shopping centre for Weymouth

FAIRCLOUGH BUILDING's London and southern division is to build Weymouth's first large modern shopping centre.

The £21.5m contract from Speyhawk subsidiary Carter Commercial Developments will include a multi-level covered complex with 198,000 sq ft of retail space in the heart of the West Country's seaside resort.

On a 4½ acre site between St Thomas Street and Commercial Road, Melcombe Court will provide two levels of shopping in a glass-covered climate-controlled environment.

Constructed with a precast frame, the centre will incorporate external brick cladding with – complementary to local architecture – ceramic floor tiling, suspended ceilings, and balustrading in the malls. Lifts and escalators will also be installed.

The development will accommodate some 70 retail units – including two department stores – grouped around malls finished to the highest standards. Parking for some 750 cars will be provided on three parking levels above the retail area. The project is scheduled for completion in 80 weeks.

£30m orders awarded to Try Group

The TRY GROUP of companies has started the decade with new orders totalling over £30m.

The main contracting arm, Try Construction, has won the major share with jobs totalling £22m. The largest, at £5.3m, is a design and build contract in Windmill Street, central London. It is a mixed development of residential, retail and offices for Finlan Property Developments. The four-storey, steel-framed building, with basement car parking, will be completed at the end of the year.

The All England Lawn Tennis Association and Croquet Club has placed a contract for the refurbishment of the debenture holder's lounge at the Centre Court.

Other projects include construction of offices in Poole and Chatham for C. Garrard and Sons International at £1.75m and £1.99m respectively; the redevelopment of buildings at Park Royal, west London (£1.25m), for Try Mistletoe Properties and the construction of the £2.2m Swallowbrook business centre in Hayes for SOE Services.

Try Build has orders worth £8m and they range from new construction to fitting out and maintenance. Armstrong World Industries heads the client list, its UK headquarters at Uxbridge is to be fitted out at a cost of £1.2m.

Work is also being carried out for the Post Office. In Hornchurch, Try is building a sorting office (£960,000) and the regional sorting office at Howick Place, London, is to be redecorated (£576,000).

General refurbishment projects include alterations to offices in Paul Street, City of London, for Skyline Investments (£350,000) and phase 2 of the Pocklington House retirement home in Northwood (£450,000).

£9m Lancashire hotel development

MOSS CONSTRUCTION NORTHERN, a subsidiary of Beazer Regional Construction, has been awarded a £9m contract to build a hotel for Queens Moat Houses in Bolton. The 130 bedroom hotel will include extensive conference and banqueting facilities for up to 300 people, a leisure complex including a pool, jacuzzi, sauna and solarium.

Cladding Docklands offices

HINCHCLIFFE FACADES, a subsidiary of Triplex Lloyd, has secured what is believed to be one of the largest single cladding contracts ever placed with a UK company, worth over £20m, spread over two years. The developer is NCC Property, the UK-based subsidiary of NCC Fastigheter AB.

The contract is for the facade cladding to four office blocks in the London Docklands at East India Dock. The buildings incorporate a combination of granite and curtain walling.

Hammersmith office village

The J M JONES CONSTRUCTION GROUP has won a £2m contract to build an office village, to be known as Parkfield Mews, in Galena Road, Hammersmith, West London. The group was awarded the contract by Parkfield Properties.

The village consists of seven three-storey units with secured semi-basement car parking, providing a total area of 24,000 sq ft. The scheme, being built on a restricted site, makes full use of traditional materials with predominantly brick elevations and tiled roofs.

Other recent London projects include a £3m 24,000 sq ft office development in North West London on behalf of the William Pears Group.

LEGAL COLUMN

High rate of redundancies among solicitors 'a crisis'

By Robert Rice, Legal Correspondent

RISES in salaries for solicitors in private practice in 1990 are expected to be below reported rises in previous years, says the 1989 Hay Survey of Solicitors' Remuneration, published today.

That may indicate an easing of the recruitment difficulties the profession has faced in recent years, it says.

Support for the suggestion that the profession's much-publicised recruitment crisis may be over came last week from the Young Solicitors Group of the Law Society.

It announced that alarming evidence has emerged of a deepening redundancy trend in the profession since the group set up its Redundancy Helpline just before Christmas.

In less than one month the YSG Helpline has had more than 30 inquiries from solicitors facing redundancy. All but one, however, have been from solicitors specialising in conveyancing.

As the property market – both residential and commercial – declines further, solicitors are being laid off, not only in the small provincial firms but also in the large commercial solicitor's practices, the group says.

Lay-offs also in large practices

"It is now evident that this is a major crisis with substantial numbers of solicitors having recently been made redundant," it concludes.

It seems inevitable that the downturn in the property market should have a knock-on effect in the service industries. Estate agents and surveyors are by all accounts having a tough time with all but a few of the big firms reporting very much reduced full-year figures.

So there is no obvious reason why solicitors in the commercial and residential property field should escape a similar downturn in their fortunes.

The broader question is whether, after what could loosely be described as a "Big Bang" for lawyers in the late 1980s, the legal profession is about to see a shakeout similar to that which has swept through the City's dealing houses and market makers over the last 18 months.

It is possible that if the UK economy moves into recession, however mild, we may see a reduction in merger and acquisition activity, for example, which could have a knock-on effect in the City law firms which have built up substantial corporate finance departments in recent years. But a downturn in work in these areas could be matched by an upturn in corporate insolvency work or international and European-driven business, for example.

So whether a general downturn in work would translate into redundancies among the City firms is an open question. Certainly for the moment the large City law firms remain bullish about growth and will take on more trainee solicitors than ever in the coming September.

Given that firms do their recruiting at the second-year undergraduate stage and are generally looking at least two years ahead, the number of trainee solicitors they recruit this autumn to join them in the autumn of 1992 may prove a more significant indicator.

What the emerging redundancy crisis almost certainly signifies, however, is that the traditional five-year recruitment cycle for solicitors is proving true to form. From oversupply in the early 80s to a significant shortage of suitable candidates in the middle of the decade, the profession appears to be moving back towards a position of oversupply.

The profession is now all too aware of this cycle and it is to be hoped that this time the downturn in demand for solicitors can be managed more effectively so that we do not see such violent swings.

It is no good, as the profession knows, turning off the supply tap and expecting to turn it on again without ill-effects when the economy picks up in a year or two. If that is allowed to happen the lessons of the recruitment crisis of the 1980s have not been learnt.

Signs of shortage lessening

Detailed interviews carried out by Hay, with some of the 265 organisations in the industrial, financial, public and professional sectors which took part in its 1989 survey, reveal that a high proportion of organisations are still finding it difficult to recruit and retain legal staff of the desired experience and quality.

The overall shortage of legal staff identified in the 1988 survey continues, although there are signs that the shortage may lessen in the future. This is due to improvements both on the demand and supply side, Hay says.

"Factors such as a flat property market and a generally less buoyant economy will ease demand and extra places on finals courses will improve supply," it comments.

For the short term, however, companies will continue to be forced into manipulating salary policy by introducing market premiums or different salary ranges in order to recruit lawyers of sufficient calibre, it says.

Hay also notes the emergence in 1989 of a significant trend towards retaining women lawyers who wish to raise a family.

Many firms are tackling the issue as a matter of urgency, it says, particularly now such a high proportion (more than 50 per cent in many cases) of their annual intake are women. Career breaks, crèches, job-sharing and part-time working are all under consideration.

As for salaries in 1989, solicitors continued to be paid consistently above the median for all jobs with the difference most marked around the recently qualified/two to three years post-qualified level.

Career breaks are considered

The median salary for a newly qualified solicitor was £17,648 compared with £16,463 for all jobs – a difference of 7.1 per cent, and for two to three years post-qualified, the median solicitors' salary was £21,122 compared with £18,723 for all jobs - a difference of 12.8 per cent.

Overall, salary levels for lawyers increased by around 10 per cent over the year to September 1 1989. However, this average figure disguises certain important points, for example that some organisations, particularly those in the professional sector, awarded increases well in excess of this figure.

Predictably, salaries paid to legal staff in Inner London exceeded the national median by the greatest amount, which on average was 16.3 per cent. Solicitors based in East Anglia and the East Midlands tended to be the worst paid – on average 16 per cent below the national median.

These differences varied between job levels. At the newly qualified level, for example, the median base salary in Inner London was £22,533, whereas in the East Midlands/East Anglia it was £13,990. These figures compare with a national median of £17,648.

Within commerce and industry salaries varied considerably. Financial companies generally remunerate legal staff more generously than companies in the industrial and service sectors, with the banking and oil sectors paying the highest.

Judges, by contrast, learnt from the 1990 Report of the Top Salaries Review Body, published last week, that their salaries are to rise by 7 per cent over the next year with an additional 10 per cent payable over two years for junior members of the judiciary, from senior circuit judges down.

Six per cent will be payable from April 1, with the remaining 1 per cent payable from January 1 1991.

The additional 10 per cent for the lower judiciary will be payable in three instalments of 3.3 per cent.

The salary of the Lord Chief Justice, Lord Lane, the highest paid judge, will rise from £89,500 to £95,750 by January next year. Law Lords and the Master of the Rolls will receive £88,500. Appeal Court judges will receive 85,000.

The salaries of industrial tribunal chairmen, metropolitan stipendiary magistrates, special commissioners for income tax and immigration adjudicators will rise by stages from £39,400 to £46,100 by April 1 1992.

It doesn't seem a great deal when first-year partners in some large City law firms earn £100,000 or more.

DIARY DATES

PARLIAMENTARY

Today

Commons: Debate on the Royal Navy.
Lords: Pakistan Bill, committee.
Courts and Legal Services Bill, committee.
Debate on report of the European Communities committee on irradiation of food.
Select committee: Public Accounts: subject, aid to India. Witness: Mr T. Lankester, Overseas Development Administration. (Room 16, 5 p.m.)

Tomorrow

Commons: Debate on agriculture.
Lords: Criminal Justice (International Co-operation) Bill, report.
Human Fertilisation and Embryology Bill, committee.
Committees on private bills: Cardiff Bay Barrage Bill (Room 5, 10.30 a.m.) and King's Cross Railways Bill (Grand Committee Room, Westminister Hall, 10.30 a.m.)

Wednesday

Commons: Motion on Social Security Benefit Uprating Regulations.
Motions on further social security orders.
Lords: Debate on "The role of a free market economy in creating jobs and wealth."
Environment Protection Bill, second reading.
Select committees: Agriculture: subject, fish farming. Witnesses: National Rivers Authority, Scottish River Purification Boards Association, Water Research Centre, and Department of the Environment. (Room 20, 10.45 a.m.)
Defence: subject, security of military installations. Witnesses, British Security Industry Association and Defence Police Federation. (Room 15, 11 a.m.)
Energy: subject, cost of nuclear power. Witnesses: Lord Marshall of Goring, Mr John Baker and Mr Alan Bowen of National Power. (Room 8, 11 a.m.)
Trade and Industry: subject, company investigations. Witnesses: Mr Nicholas Ridley, Trade and Industry Secretary, and officials. (Room 16, 11 a.m.)
Employment: subject, tourism. Witness: TUC. (Room 20, 4.15 p.m.)
Home Affairs: subject, Crown Prosecution Service. Witnesses: Association of Chief Police Officers, Police Federation and Police Superintendents Association of England and Wales. (Room 15, 4.15 p.m.)
Public Accounts: subject, invalidity benefit. Witness: Mr M. Partridge, DSS. (Room 16, 4.15 p.m.)
Defence: subject, security of military installations. Witness: MoD (Room 8, 4.30 p.m.)
Procedure: subject, working of the select committee system. Witnesses: Mr Tom King, Defence Secretary, and Mr David Waddington, Home Secretary. (Room 6, 4.30 p.m.)
Committees on private bills: Cardiff Bay Barrage Bill (Room 5, 10.30 p.m.) and King's Cross Railways Bill (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Thursday

Commons: Opposition debate on the Scottish economy.
Motion on EC documents on rights of residence.
Opposed private business.
Lords: Human Fertilisation and Embryology Bill, committee.
Motion on Official Secrets Act.
Committees on private bills: Cardiff Bay Barrage Bill (Room 5, 10.30 a.m.) and King's Cross Railways Bill (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Friday

Commons: Private members' bills.
Lords: Coal Industry Bill, second reading.
Motor Trades (Consumer Protection) Bill, second reading.

FINANCIAL

TODAY
COMPANY MEETINGS-
Teredo Petroleum, The Farmers Club, 3 Whitehall Court, S.W., 2.30
BOARD MEETINGS-
Finals:
Beckenham
Fleming Claverhouse Inv. Trust
UTC
DIVIDEND AND INTEREST PAYMENTS-
Australia & New Zealand Banking A$0.22
Do. New A$0.11
Barrett (Henry) 3.46p
Boots 3.85p
British Bldg. & Eng. Appliances 1p
Clayhithe 1.8p
Cooper (Frederick) 2.5p
Feedback 0.75p
Grindlays Eurofinance BV Gtd. Fltg. Rate Nts. 1994 $432.71
Johnson, Matthey 2.5p
[illegible]
New Zealand Inv. Tst. 1.5p
[illegible]
Tate & Lyle 6.1p
TOMORROW
BOARD MEETINGS-
Finals:
Aaronson Bros.
Sandell
Securicor
Securiguard
Security Services
Interims:
Hambros Currency Fund
[illegible]
Micklegate
Unitech
DIVIDEND AND INTEREST PAYMENTS-
Abbey National Bldg. Society Fltg. Rate Nts. 1990 £192.19
Anchor Intl. Fd. 15.86cts.
BAT Inds. 10.3p
Body Shop Intl. [illegible]
DAE [illegible]
Davy Corp. 2.75p
De Beers Cons. Mines 40% Prf. (Br.) 24.08501p
Griqualand West Diamond Mining [illegible]
Intl. Distillers & Vintners 8½% Uns. Ln. 87/92 4.25pc.
Priest (Benjamin) 1.5p
Randfontein Ests. Gold Mining 40cts.
Whitbread 7¾% Red. Deb. 89/94 3.875pc.
WEDNESDAY FEBRUARY 7
BOARD MEETINGS-
Finals:
Hunterprint
St. Modwen Properties
Union Discount
Interims:
YRM
DIVIDEND AND INTEREST PAYMENTS-
British Petroleum 3.85p
Cohen (A.) & Co. 6.8p
Do. NV A 6.8p
Cons. Co. Bultfontein Mine [illegible]
De Beers Cons. Mines 40% Prf. (Reg.) 24.08501p
Do. 5% 2nd Prf. 0.88280p
Deelkraal Gold Mining 25cts.
Driefontein Cons. 85cts.
Gold Fields Coal [illegible]
Harland Simon 1.5p
JLI 1.3p
Kloof Gold Mining 60cts.
Libanon Gold Mining 2.372[illegible]
Ferstorp [illegible]
River & Merc. American Cap. & Inc. Tst. 1.8p
Southern Rhodesia 4½% 87/92 (Unassented) 2.25pc.
Do. (Assented) 2.25pc.
Tex Hldgs. 3p
Unisys Corp. 25cts.
THURSDAY FEBRUARY 8
COMPANY MEETINGS-
Associated Paper Inds., Royal Westminster Thistle Hotel, Buckingham Palace Road, S.W., 12.30
Tomkinsons, St. Mary's Church Chantry, Clensmore Street, Kidderminster, Worcestershire, 12.00
Tunstall Group, The Queens Hotel, City Square, Leeds, Yorkshire, 12.00
BOARD MEETINGS-
Finals:
Consolidated Co. Bultfontein Mine
Copenhagen Handelsbank
Ericsson (L.M.)
Griqualand West Diamond Mining
Sandvik
Throgmorton USM Tst.
Interims:
Birse
Budgens
Elbief
DIVIDEND AND INTEREST PAYMENTS-
Barclays Bank 9⅞% Bds. 1999 4.9375pc.
Gartmore Information & Fin. Tst. 2.7p
Sonic 1p
[illegible]
FRIDAY FEBRUARY 9
COMPANY MEETINGS-
Eurocopy, Cedar Court Hotel, Denbeigh Dale Road, Calder Grove, Wakefield, 12.00
BOARD MEETINGS-
Finals:
European Assets
Manchester Ship Canal
Interims:
Abingworth
Automagic
Honeysuckle
Pacific Dunlop
Book Shop Intl.
DIVIDEND AND INTEREST PAYMENTS-
American Express Co. 23cts.
BP America Inc. 14% Gtd. Nts. 1994 7pc.
Berkeley Group 1.5p
Bermuda Intl. Bd. Fd. 30cts.
Burns-Anderson 2.65p
Conoco 7½% Gtd. Uns. Ln. 87/92 3.75pc.
Electric & General Inv. 1p
Fleming Intl. High Inc. Inv. Tst. 0.85p
Halifax Bldg. Society Fltg. Rate Ln. Nts. 1994 £191.09
Hydro-Quebec 11% Debs. Sers. HC 9/2/99 5.5pc.
Mayer Intl. 4.8p
Microlec 1.3p
Middle Wits. (Western Areas) 3cts.
NCR Corp. 33cts.
National & Provincial Bldg. Society Fltg. Rate Nts. 1999 £282.81
Norsk Hydro AS 9⅞% Nts. 9/2/95 4.9375pc.
Royal Bank of Scotland Fltg. Rate Nts. 2005 £190.62
Strata Invs. 1.15p
Tunstall 2.75p
Westpool Inv. Tst. 0.85p
Zandpan Gold Mining 10.5cts.
SATURDAY FEBRUARY 10
DIVIDEND AND INTEREST PAYMENTS-
Conversion 9¼% 2001 4.625pc.
Cowan, de Groot 1.25p
Salvesen (Christian) 2.5p

Trade fairs and exhibitions: UK

Current
International Spring fair (01-855 9201) (until February 8)
NEC, Birmingham

February 7-9
Undersea Defence Technology Conference and Exhibition (0892 44027)
Novotel, London

February 7-11
Scottish Boat, Caravan, Camping and Leisure Show (041-221 1769)
Exhibition and Conference Centre, Glasgow

February 13-15
Corporate Computer Security '90 International Exhibition and Conference (0733 60535)
Novotel, Hammersmith

February 13-15
The Property Business + Enterprise 3 (01-834 1717)
Barbican, London

February 20-22
London Food Exhibition (01-486 1951)
Wembley Centre

February 20-22
Business Communications Exhibition – NATIONAL CONNECT (0652 650505)
G-Mex Centre, Manchester

February 25-27
Menswear Fair – MARNORTH (01-437 8754)
Harrogate

February 28-March1
Northern Wine and Spirit Trade Fair (01-637 2400)
G-Mex Centre, Manchester

March 4-6
International Automotive Parts & Accessories Trade Show – AUTOPARTAC (01-302 8585)
Olympia

March 4-7
Skiing Exhibition – SKI GB (0228 41272)
NEC, Birmingham

Overseas exhibitions

February 8-14
International Toy and Hobby Fair (01-930 7251)
Nuremberg

February 9-18
International Boat Show (01-486 1951)
Helsinki

February 18-21
International Confectionary, Chocolate, Biscuit and Pastry Exhibition – INTERSUC (01-225 5566)
Paris

February 22-25
International Sports Equipment & Fashion Trade Fair – ISPO SPRING (01-940 4625)
Munich

March 10-18
International Boat Show – HISWA (01-495 7977)
Amsterdam

March 11-17
International Spring Fair (0375 392222)
Leipzig

Business and management conferences

February 7
BCS Conference: Disaster relief and mitigation (01-222 3651)
QEII Conference Centre, London

February 8
The Economist: Managing service: the key to total customer satisfaction (01-976 6565)
Marriott Hotel, London

February 12-13
Financial Times: Commercial aviation in the Asia-Pacific region to the end of the century and beyond (01-925 2323)
Singapore

February 13-14
National Materials Handling Centre: Warehouse & distribution software (0234 750323)
Ramada Inn, West London

February 15
Design for Europe conference (01-225 6034)
QEII Conf Centre, London

February 16
CBI Conferences: Legislation behind the Social Charter (01-379 7400)
Centre Point, London

February 19
Technology Forum: Risk assessment techniques and fire safety (01-519 4105)
London Tara Hotel

February 20
Information for Energy Group: Oil price information (01-636 1004)
Institute of Petroleum

February 22
PCTS: ESOPs, share schemes, and performance related pay for executives and employees (01-284 0470)
Cafe Royal, London

February 22
Tolley: International tax planning conference (01-680 5682)
London Press Centre

February 22-23
Acquisitions Monthly and Bankers Trust Company: Acquiring in Europe (01-823 8740)
London Marriott Hotel

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

APPOINTMENTS

Senior post at Barclays

■ Mr Alastair Robinson (pictured), director, personnel, becomes executive director, UK operations, from April 16, and joins the board of BARCLAYS BANK. He succeeds Mr Owen Rout, who is retiring.

■ Lord (Frank) Taylor of Hadfield has become president of AIMS OF INDUSTRY following the death of Sir John Reiss. Lord Taylor is founder and life president of the Taylor Woodrow Group. Lord Boardman has rejoined the organisation's council.

■ SINTROM has appointed Mr Ian Hillier-Brook as group chief executive. He was managing director of Storage Technology.

■ HENDERSON ADMINISTRATION GROUP has appointed five directors at Henderson Financial Management: Mr Michael Clayton, Mr Alastair Morley-Brown, Mr Rory Montgomerie, Mr Peter Hillier and Ms Esther Gardyn.

■ Mr John Bailey has been appointed managing director of CORPORATE BROKING SERVICES. He was deputy chief executive, Credit Suisse Buckmaster and Moore.

■ Newly-formed AMEY FLOORING has appointed Mr Michael L. Kitchenham as chairman; Mr Arthur S. Tyler as managing director; Mr David A. Cawthorne as finance director; and Mr Richard E. Hall as technical director.

■ NATIONAL & PROVINCIAL BUILDING SOCIETY has appointed Mr Ed Bucks as group IT director.

■ Mr John Wilken and Mr Kevin Stratford have been appointed directors of BERRY, BIRCH & NOBLE.

■ Mr Denis Gautier-Sauvagnac, inspecteur général des finances, has joined KLEINWORT BENSON as a director, in charge of activities in France. He will be based in Paris.

■ Lord Nicholas Gordon Lennox, former ambassador to Spain, has been appointed a director of THE FOREIGN AND COLONIAL INVESTMENT TRUST. He replaces Sir Nicholas Henderson who has retired.

■ Mr Tim Pendry has been appointed managing director of McAVOY WREFORD BAYLEY, with special responsibility for the development and management of financial communications assignments. He was deputy managing director of Shandwick Consultants.

■ AMERICAN EXPRESS has promoted Mr Howard A. Morgan to vice president and general manager of its UK financial services institutions business in London. He will be responsible for the traveller's cheque product in the UK. He was vice president, sales and marketing.

■ Mr Tim Flanagan has been appointed finance director of SAFETELL INTERNATIONAL, which makes rising security screens for banks and building societies. It is an associate company of Tate & Lyle, and is backed by Schroder Ventures, where Mr Flanagan was an executive.

■ Mr Andrew Sayer has been appointed a director of DEN NORSKE CREDITBANK, in charge of UK corporate banking.

Mr Paul Goodland (above) has been appointed development director, grocery and leisure operations, EXEL LOGISTICS, part of NFC. He joins from sister company BRS Midlands where he was business development director, and succeeds Mr Andy Wood who becomes divisional IT director.

Hoyland & Ohana

LILIAN BAYLISS THEATRE

Music theatre came of age in the 1960s, when composers realised that traditional opera houses lacked both the resources and the inclination to put on new work with the thoroughness and frequency they desired. Now, when opera is In and commissions for new works seem to be distributed *with abandon to* anyone who fancies the idea of a stage work, the more minimal dramatic trappings of music theatre have come to seem quite unfashionable, even though they often offer a fiercer, more revealing fusion of text, music and gesture than the opera house.

Both the works in Lontano's double bill on Thursday were new to London, yet there seemed something pleasantly old-fashioned about the whole enterprise – an on-stage instrumental ensemble larger than the Fires of London might have mustered 20 years ago, a solo soprano and no set at all in the first work, a singer, two mimes and a few drapes and costumes in the second.

In fact the staging of Maurice Ohana's *Trois Contes dé l'Honorable Fleur* blurred definitions of opera and music theatre. It was credited to Lentoteatro, director Elisa Toledo Todá, though the use of two mimes to counterpoint the soprano's presentation of some slender Japanese legends, was part of Ohana's original concept; the piece was first performed at the Avignon Festival in 1978. There are some fetching things in Ohana's instrumental writing, straight borrowings from Stravinsky and Varèse, and delicious textures heavily influenced by those composers. The vocal writing is less distinguished though, and the whole wispy concept just a little precious; perhaps a simpler presentation, clinging closer to the narrative (delivered crisply by Valérie Chouanière) would give it a simpler, less pretentious charm.

Vic Hoyland's *La Madre* was brand new, commissioned by Lontano and written for Linda Hirst who sang it with the group here. It sets an episode from Dario Fo's *The Worker knows 300 Words, the Boss knows 600 – That's why He's the Boss* in which a Sicilian mother recalls her son's murder by the Mafia. Hoyland presents it in a mix of Italian and English (translation by David Hirst), in speech, melodrama and carefully rationed song, while the instruments punctuate and comment, and finally stretch themselves into a languorous lament.

The proportions are surprisingly modest; I expected something more than 20 minutes of music, and the subject is a darkly moving one that could have been explored at greater length. But dramatic shape has always been one of Hoyland's strengths, in his instrumental as much as his theatre pieces, and *La Madre* moves in a beautifully proportioned, economical curve; the switches between the vocal modes are finely calculated and the textures full of his spiky rhythms and edgy, potent sonorities. It exploits Linda Hirst's talents to the full, but left the feeling that Hoyland's *dramatic gifts are more than* ready for a larger canvas, and one of those ubiquitous opera commissions ought to have been sent his way long ago.

Andrew Clements

ARCHITECTURE

Cities should be about people

There are very few great thinkers or writers in the world of town planning and architecture and one of the greatest of them, Lewis Mumford, died last week at the age of 94.

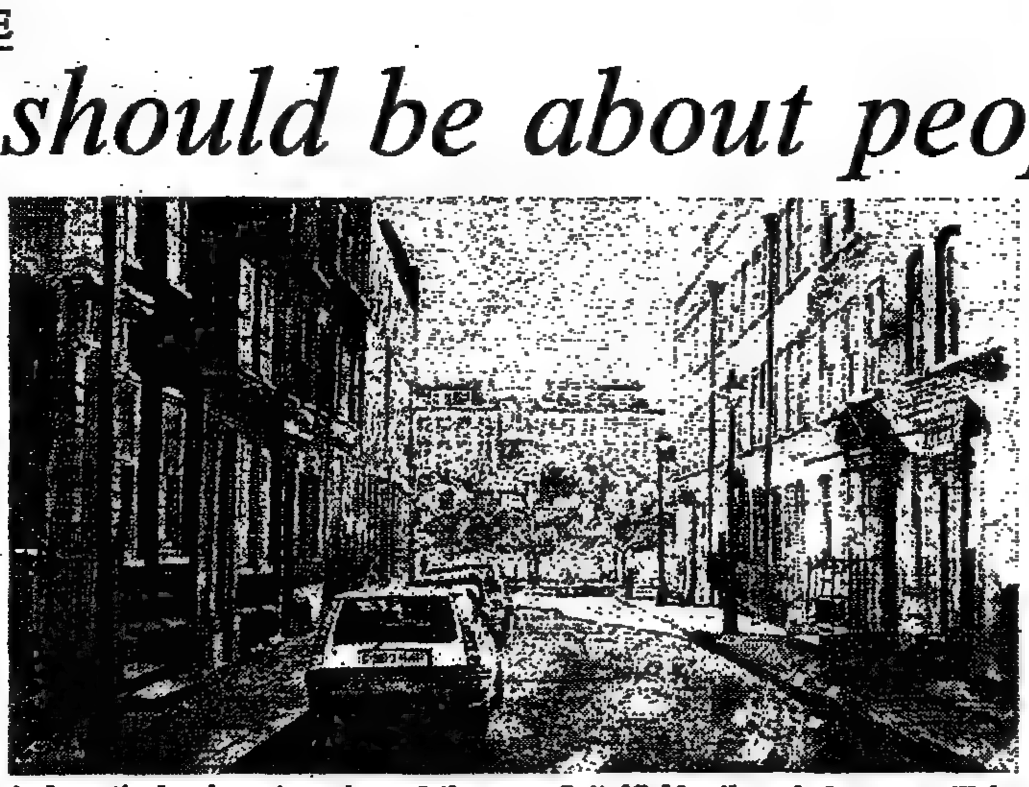
Many people must have been surprised to find that this sage had lived into the 1990s. He had retreated from the fray to his rambling house in Amenia, upstate New York, undertaking only the work that appealed to him.

His writings on cities and architecture were highly influential, from the time he wrote *Technics and Civilisation* in 1934 to his remarkable survey, *The City in History*, published in 1961.

What was it that made this American writer so important? I think it was because his work shows a breadth of mind that has been unfashionable in so much of the 20th century. He was something of a prophet when it came to the future of the city.

In London in 1960 he said: "The curse of all cities is the quantity of everything they have to contain, from people to cars. Cars should be cleared away from city centres and the space they devour should be restored to public transport." He identified many of the problems of the current debate about the inner city, and inspired much of the thinking about green belts, new towns and settlements that work well as organised communities. His particular anxiety was what he saw as a love affair between 20th century man and the machine. "If you fall in love with a machine there is something wrong with your love life. If you worship a machine there is something wrong with your religion."

In his early books, *Sticks and Stones* (1924) and *The Brown Decades* (1931), he was instructing Americans to reconsider their own artistic heritage. Only gradually did he move on to more universal themes. His most influential early book was *The Culture of Cities*, published in 1938, which placed him at the centre of the international town planning debate.



A deceptively charming view of the new Spitalfields: the whole area will be overshadowed by office blocks completely out of scale with the neighbourhood.

Mumford's particular gift was to synthesise his vast reading and learning in the fields of technology, the arts, history and philosophy, into a single volume. He saw the development of the city in terms of the activities of man, both social and intellectual. While he recognised the positive contribution of cities in history, his careful analysis forced him to conclude that the dehumanised industrial city led to spiritual impoverishment and social disorder.

But he never abandoned hope and produced ideas for planned and limited communities that occupied an organised regional framework. This was his vision of the "New Urban Order," which recognised that the objectives of planning and architecture should always be related to social aims. Throughout his life Mumford wrote, campaigned and argued for social advance through environmental improvement.

His column, "Skyline" in the *New Yorker*, was a morally principled commentary on the state of the architectural and planning world. His long correspondence with Sir Frederic Osborn, the British campaigner for new towns and garden cities, runs from 1938 to 1970. He was sympathetic to the aims of British planners and these letters reveal a shared concern of two men who were prepared to take on governments and, in Osborn's case, to risk money on the development of new towns.

Socialised planning is today unfashionable in both Britain and America, but I detect a return to the more principled approach to development that Mumford would have recognised.

He must have been horrified by the Reagan years in the US, when even a *laissez-faire* approach to planning was replaced by a "rip it up" policy to both plans and cities. What would Mumford have thought of London today, particularly as the city falls more and more under the influence of American architects and developers?

Take a couple of recent schemes. Rosehaugh Stanhope Developments is beginning on its huge office development at the foot of Ludgate Hill, which stretches from Holborn Viaduct to Queen Victoria Street. Of the five blocks, three will be designed by the American firm of Skidmore Owings and Merrill.

Initially they look completely routine. The developer has allowed one burst of creative energy on the site by commissioning the British architect John Outram to design an office building behind the famous art nouveau Black Friar public house. In its use of materials, encouragement of pattern and arched skyline, the Outram proposal looks like being one of the city's livelier new offices – suggestive indeed of a Victorian richness.

But, as Mumford would have said, cities are about more than architectural style. The real effect of the Ludgate proposals will be to create a wall of offices at the foot of the hill, with little attempt to enhance the skyline or understand the scale of the city.

The same criticisms must surely be applied to the latest proposals for the market site in Spitalfields by the Spitalfields Development Group, which has also opted for American architects, Swanke Hayden Connell. This New York firm has, in my view, completely failed to design buildings that bear any relation to London at all.

It is sad indeed that this neighbourhood of London, where the efforts of the community have saved the remarkable heritage of Georgian streets around that masterpiece of Hawksmoor's career, Christ Church Spitalfields, is to become as mediocre as anywhere else. The scale and design details of the lumpen office blocks are, quite simply, wrong and insensitive. What is worse is that the architects and developers pretend that their scheme is in the tradition of the surrounding architecture.

If this Swanke Hayden Connell scheme goes ahead, all Spitalfields will gain is an ingeniously engineered shopping galleria by Santiago Calatrava set in an unharmonious group of office blocks. Why should a lively, historical, varied and rich part of London be changed into a suburb of Toronto? Is there anyone there in Mr Patten's office who has read a word of Lewis Mumford? Is there anyone there who actually looks and walks in the city? Do not be deceived by smooth-talking architects and their mendacious perspectives any more. London is on the brink of character assassination again – has nothing been learned since the 1960s?

Colin Amery

Bob Dylan

HAMMERSMITH ODEON

The "new" Dylan is about as frequent a feature in our lives as the "new" Daz and a jolly sight more interesting. Even when at his most perverse and patronising the 48-year-old from Minnesota, who can rightly claim (as if he could be bothered) equality with Presley and the Beatles in the pop pantheon, is always fascinating, always has a point.

He is at Hammersmith until Thursday, and judging by Saturday's opener, these concerts will be among the hottest of the year. The venue, which manages to be both intense and laid-back, is the ideal setting for Dylan Mark IX. At last he is stripped down to what may be another pose but a comfortable one – Dylan, the rock star.

The new album which brings him here, "Oh Mercy", is his best since the last Labour Government. It is built round fast-moving pop songs, belted out by one of those tight, gutsy, American bands that seem born to boogie. They are widely featured in the set and anyone glancing in at the thin, saturnine figure in the white jacket and with the long black stick legs, crouching over an electric guitar along with his buddies, might think they had stumbled on one of those unregenerate American rock bands of the 1970s – Tom Petty, say, or even J. Geils.

But Dylan, being a twisted genius, never lets an audience relax for more than a couple of songs. When he plays the standards, the songs from the sixties which rallied a generation around the youth banner, you strain to recognise them beneath the cynicism – they are thrown away in garbled, almost punkish, bursts of energy. Gone are the days when Dylan drawled out every phrase into nonsense; now he seems to despise his poetic imagery and his millennial illusions.

There is not much politics, but "All along the watchtower" is played with Hendrix-like passion, and "Like a Rolling Stone" with a hint of nostalgia. No room for the great love songs, or the anthems of the new religious order. After 90 minutes, with every eye drilled on the stage and every mind delivered up to Dylan's magnetic casualness, he quits.

He returns. The audience relaxes and anticipates the classics of pop. Instead there is a detached "Mr Tambourine Man" and "Everything is broken," from the new album. The stage lights go off; the auditorium lights go on. True to himself to the end Dylan has toyed with the enthusiasm of his ecstatic fans for a while and then abandoned them to cold turkey. It will be different tonight – but as mesmeric.

Antony Thorncroft

SPONSORSHIP

BSIS tightens its belt

The Government is tightening up on its help for business sponsors of the arts. In future, any company that has supported the arts for more than three years will not be eligible for a back-up grant under the Business Sponsorship Incentive Scheme. This is now concentrated on first-time sponsors, but even here its generosity has been narrowed: instead of providing £1 for every £3 from a new sponsor the Government will only respond on a £1 to £4 basis.

At the same time Mr Richard Luce, Minister for the Arts, has squeezed another £250,000 from the Treasury so that, starting from April 1, the BSIS will have £3.5m to dispense, in maximum packages of £25,000.

The additional cash and the less generous provisions should ensure that the Association for Business Sponsorship of the Arts (ABSA), which administers the scheme, will not run out of cash prematurely. In 1989-90, for example, the money was exhausted by November. The Government and ABSA are still confident that arts sponsorship will grow and, to regulate the demand for grants, the subsidy is to be allocated through six bimonthly budgets, with first comers getting the money.

This optimism clashes with the view of many arts organisations, who are finding it harder to get cash from traditional sponsors. However, it is the larger, London based, opera companies and art galleries that are meeting resistance while, in the regions, business is still discovering the joys of sponsorship. The latest statistics for 1989-90 show that 131 new sponsors received BSIS grants under the old dispensation as against 31 experienced sponsors. In all, the BSIS scheme has attracted more than £31m in new sponsorship in five years.

★

If London arts organisations are experiencing problems, there are encouraging reports from the regions, notably from Merseyside and Glasgow. Four years ago the Royal Liverpool Philharmonic Orchestra was up against it. A big supporter, Merseyside Regional Council, had been axed and Liverpool City Council had other priorities and refused to bridge the funding gap.

Now the RLPO is entering its a 150th season in fine fettle, thanks to Libor Pesek, the new music director and its success in selling itself to business, helped by persuading businessmen to join its board. In the last two years its sponsorship income has trebled to £400,000 a year. The main event of the orchestra's celebrations still awaits a sponsor – probably because the RLPO is looking for a six-figure sum. Paul McCartney is writing an 80 minute oratorio celebrating his home town, for performance in June 1991. With recording and video potential, the orchestra sees this as a big sponsorship opportunity.

In the meantime, it is trying to do for Merseyside what the CBSO and Sadler's Wells have achieved for Birmingham and its selection as European Year of Culture for Glasgow. On March 21 at the Barbican, London, Business Opportunities on Merseyside (BOOM) is holding a conference, with 250 companies invited to hear about the investment appeal of the region. The day climaxes with a concert by the RLPO, sponsored by Unilever and the University of Liverpool.

The orchestra has managed to develop close ties with local educational institutions. As well as the University, the local Polytechnic has sponsored a concert (which costs between £5,000 and £15,000) and so has fee paying Ruthin School. It joined Royal Insurance, IBM and ICI.

The RLPO has even persuaded GEC, notoriously dubious about sponsorship, to back the orchestra on a forthcoming trip to the Soviet Union; its subsidiary, GPT, is bringing the modern telephone to Moscow.

★

Another reason why sponsorship money might be thin on the ground down south this year is that much of it is going to Glasgow. Eighteen months ago Glasgow poached Wendy Stephenson from the Edinburgh Festival with the task of drumming up sponsors to help pay for its ambitions as European City of Culture in 1990. To date she has brought in almost £2m.

Some arts organisations have been happy to develop their own sponsorship links, but dozens of events are going ahead thanks to the Stephenson blitzkrieg on around 250 locally based companies. About 100 have offered something. Most generous were BP Exploration, with well over £200,000, most of which is going behind the development of the Dome of Discovery, and Tennents, which has spread almost £200,000 around eight events, including the opening gala at on October 8.

Of the financial institutions the Bank of Scotland is putting up £135,000, which includes installing lifts for the disabled in the concert hall, while the Royal Bank of Scotland is good for £100,000. The Clydesdale Bank is making a modest contribution and Brechin Robb, solicitors, is putting up £5,000 to take a performance of *Madama Butterfly* by Scottish Opera.

Among new sponsors Britannia Life is backing the major Degas show at the Burrell with £60,000, and MDW Construction is investing £100,000 in the exhibition of Scottish art at the modernised McLellan galleries. Other builders gave help in kind – Tarmac and Rush & Tompkins have made the Tramway, a former tram factory, an enjoyable arts centre.

★

The McLellan Galleries kicked off last month with the British Art Show 1990, sponsored appropriately with £100,000 from 3i, the venture capital group, which is building a reputation as both buyer and sponsor of contemporary art.

The privatised institutions are proving keen art sponsors. British Airways has come up with £10,000 worth of air travel for the best final year art student who enters a competition to be judged at the International Contemporary Art Fair at Olympia in late March, which it also sponsors. And John Simmons has put together a show of over 200 paintings by 60 of the best post 1985-art graduates. Auctioneers Bonhams, which has a vested interest in encouraging new art patrons, is exhibiting, then selling, them on April 9.

★

Hine, the French cognac makers, is coming to the aid of threatened arts and crafts. Last week it gave bow maker Stephane Thomachot FF75,000 (£7,500) with which he will train an apprentice and buy the rare Brazilian wood, most favoured in the construction of bows. Other traditional skills were considered for the award, which will now be annual.

Antony Thorncroft

Valentino

BIRMINGHAM REP STUDIO

Snarling Beasties, award winners from last year's Edinburgh fringe, make their follow-up appearance with a short, sharp stab at the system that made and broke Rudolph Valentino.

It is a subject that gets close to the stylistic heart of this talented young Coventry-based touring company, giving full rein to the physical inventiveness that made such an impact in *Punch and Judy*, their low-down on marital violence.

The villain of this first full collaboration with Birmingham Rep, is the Studio boss – dubbed "The Manipulator" – whose initial reluctance to hire the young Italian fortune hunter ("Italians play heavies, thugs, greaseballs") turns to rank opportunism as the dollar signs dawn before his eyes.

In three acts of subtitled melodrama Valentino's life is played-out by a trio of actors in lieu of a cast of thousands. From his birth, silent movie-style, to a mother *flailing arms* and legs from the depths of a chair, one of the few props on an austere black-and-white stage, our hero is followed through two marriages and several falls to fame and misfortune in a style that changes with each act.

The Chaplinesque knock-about of the early years gives way to a walkie-talkie Hollywood governed by moguls (Andrew McIlwee), whose professional interest does not stop at the studio door. Valentino is groomed and dragooned into celebrity and out of marriage to the domineering, set-designing feminist who for a while held his life together.

Dubbed a pansy by an obsessively homophobic society, he fights a rearguard action framed as a boxing match, finally doffing his gloves and giving in to the pressures of infamy.

It is not the subtlest of psychological readings, nor the most sophisticated of political analyses, but Snarling Beasties are not in the business of actuality.

Their passion is the politics of power: whether it is Punch knocking Judy out for the count or The Manipulator brutally stripping Valentino of his independence – and his life.

Writer and director Debbie Isitt sets about the show with a characteristic verve: her script is generally sharp and funny in the right places; her portrayal of the various women in Valentino's life is strong though bordering on the same-ish, a problem that begins, by the final act, to affect the whole piece.

The invigorating physicality of the work reaches a shocking peak in the second act when the outstanding Mark Kilmurry as Valentino, launches into a routine which begins with the condescending signing of autographs and degenerates into a brutal striptease, as his clothes are torn from him by adoring fans.

This is the Beasties at their beastly best, turning an image on a knife-point and letting it spin. The trouble comes when the images are so complete that nothing more needs to be said.

The flaw of *Punch and Judy*, an awkwardness with the ending, re-surfaces here as Valentino is pitched into the boxing ring for a finale that smacks of playing to formula.

There is no doubt that audiences will enjoy the show, but the next step for Snarling Beasties must be to hitch themselves to an outsider capable of setting their skills in a new and more challenging perspective.

Claire Armitstead

Swan Lake

COVENT GARDEN

It is one of the inevitabilities of ballet that new Swan Queens take to the lake for the first time on Saturday afternoons. Siegfried mimes surprise at the swan's transformation; that brief orchestral phrase prepares us and there she is – young, graceful and probably riven with nerves. And there we are, eager for her success. So it proved yet again last Saturday when Darcey Bussell was the debutant Odette/Odile. She appeared, with the bold stretch of her limbs signalling wonderful things to us, and our hearts went out to her.

Miss Bussell, not three years out of the Royal Ballet School but with the grand achievement of her heroine in *The Prince of the Pagodas* to sustain her, brings exceptional gifts of technique and physical distinction to *Swan Lake*. Her line stretches proudly out, lifting the choreography and, at her finest, giving it a luscious power. We are watching a young artist in the earliest moments of her career, and it is potential rather than present success that is most exciting.

Saturday's debut, with Jonathan Cope an attentive Siegfried, was well judged, well prepared: when her emotional view of the double role matches her physical aptitude for it, echoing the exultant shapes she draws in movement, we shall have a notable interpretation. And as a note in passing let me urge that the Royal Ballet abandon the swan's bathing caps and curious make-up designed for the lake-side acts forthwith. The beautiful placing of Miss Bussell's head was distorted by her head-dress – and in the evening Lesley Collier's Odette very wisely reverted to the simple wings of white feathers, and looked vastly better.

Miss Collier's sincere and unforced interpretation had the advantage of another notable debutant, Laurent Hilaire, as partner. M. Hilaire is one of nature's (and ballet's) Princes. Aristocratic manners, an alert clarity in mime - and an elegant way of speaking the bravura of the role, make him an ideal Siegfried.

M. Hilaire's temperament is all the more potent for the control of true and commanding classic style. Amid the flummery of this production - heavily populated with drunks and merry retainers and flaunting guests and some noxious tots - Laurent Hilaire reminds us of the value of good manners and ardent virtuosity.

Clement Crisp

ARTS GUIDE

February 2-8

MUSIC

London

Nigel Hutchison (piano). Prokofiev, Debussy, Chopin (Tues). Purcell Room, South Bank Centre (928 8800).

Paris

Trio Tchaikovsky (Mon). Salle Gaveau (45632030).
Orchestre Colonne conducted by Philippe Entremont, Karen Adam (violin), Gary Hoffman (cello). Brahms, Boulez, Debussy (Mon). Salle Pleyel (45638873).
Orchestre de Paris and Ensemble Intercontemporain conducted by Pierre Boulez. Varese, Dalbavie, Bartok (Wed, Thur). Salle Pleyel (45630796).
Orchestre National de France. Levinas, Schnittke, Bartok (Thur). Radio France, Grand Auditorium (42301516).

Brussels

London Symphony Orchestra conducted by Michael Tilson Thomas plays Berlioz, Ives and Mozart (Thur). Palais des Beaux-Arts

Frankfurt

Frankfurt's Radio Orchestra conducted by Gerhard Schwarz with pianist Christian Zacharias. Aaron Copland, Beethoven, Webern and Mendelssohn (Wed, Thurs). Alte Oper.

Munich

Hermann Prey lieder recital, accompanied by Hartmut Deutsch (piano). Schubert and Karl Loewe (Tues). Philharmonie im Gasteig.

Berlin

Berlin Philharmonic Orchestra conducted by Zubin Mehta and Midori (violin) with a Richard Strauss programme (Thur). Philharmonie.

Amsterdam

Netherlands Philharmonic with Frank Peter Zimmerman (violin), Hartmut Haenchen conducting. Berg, Bruckner (Tue, Wed). Concertgebouw (718 345).
Royal Concertgebouw Orchestra conducted by Riccardo Chailly, with Ronald Brautigam (piano and harpsichord), Viktor Liberman and Jaap van Zweden (violins), Araxia Davtian (soprano) and Artur Eisen (bass). Stravinsky, Schnittke, Shostakovich (Thur). Concertgebouw. (718 345).

Barcelona

Colorado Quartet. Mozart, Bartok, Beethoven (Wed). Fundacion Caja de Pensiones (317 57 57).
Nikita Magaloff (piano). Scarlatti, Beethoven, Debussy, Stravinsky, Chopin (Thurs). Palau de la Musica Catalana (3016943).

Madrid

Nikita Magaloff (piano). Scarlatti, Beethoven, Debussy, Stravinsky, Chopin (Tues). Auditorio Nacional de Musica (337 01 00).
Italian-Spanish festival
Divertimento Ensemble de Milan conducted by Sandro Gorli. Bussotti, Marco, Gorli (Tues). Auditorio Nacional de Musica (337 01 00).
Symphony Orchestra of the Tchaikovsky Conservatoire (Moscow) conducted by Leonid Mikolaiev, Ruggero Raimondi (bass). Mussorgsky, Rimsky-Korsakov, Borodin, Tchaikovsky, Glinka, Verdi (Wed). Auditorio Nacional de Musica (337 01 00).
Spanish National Choir conducted by Alberto Blancafort. Rossini programme (Thur). Auditorio Nacional de Musica (337 01 00).
Gerhard Oppitz (piano). Brahms programme (Thur). Auditorio Nacional de Musica (337 01 00).

Vienna

Lindsay String Quartet. Mozart, Britten, Smetana (Thur). Musikverein.
Elena Baschkerova (piano) Schumann (Mon). Konzerthaus.
Wiener Symphoniker, Hans Graf conducting. Schubert, Rubin, Mendelssohn (Wed). Musikverein.
Daniel Barenboim piano recital. Bach's Goldberg Variations (Wed). Konzerthaus.
Kuchl Quartett. Hadyn, Theimer, Brahms (Wed, Thurs). Musikverein.

New York

Orchestra of St Luke's conducted by John Eliot Gardiner. Stravinsky, Bartok (Tue). Carnegie Hall (247 7800)
New York Philharmonic. Erich Leinsdorf conducting, Philip Myers (horn). Strauss, Couperin, Haydn, Mozart (Tue). Avery Fisher Hall (874 8770)

Washington

Chamber Music Society of Lincoln Center. Albinoni, Purcell, Mozart, Zelenka, Bach (Wed). Kennedy Center Concert Hall (467 4600)

Chicago

Chicago Symphony Orchestra. Claudio Abbado conducting Viktoria Mullova (violin). Shostakovich, Tchaikovsky (Tue, Thur). Orchestra Hall (435 6666)

Tokyo

Austrian Radio Symphony Orchestra, conducted by Manfred Honeck. Mozart, J. Strauss. Suntory Hall (Mon). (235 1661).
Mstislav Rostropovich (cello) with the National Symphony Orchestra, conducted by Steven Arbatt. Dvorak, Prokofiev. Bunkamura, Orchard Hall (Wed). (289 9999).
National Symphony Orchestra conducted by Mstislav Rostropovich. Tchaikovsky, Arbatt. Bunkamura, Orchard Hall (Thur). (289 9999).

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A green tax challenge

ONE OF the thorniest problems confronting politicians is how seriously to take warnings of impending environmental disaster.

Recent projections by the Paris-based International Energy Agency suggest "drastic" measures would be required to achieve a significant reduction in the growth of carbon dioxide emissions.

If a "carbon tax" severe enough to double the landed price of European coal and raise oil prices by 50 per cent were imposed, the rate of growth of energy-related carbon dioxide emissions in OECD countries might be cut by 50 per cent in the period to 2005. But that would still mean an absolute increase of 13 per cent.

And if such draconian policies were not accompanied by comparable abatement measures in the rest of the world, the impact on global carbon dioxide emissions – and hence global warming – might be negligible.

These gloomy projections reflect the IEA's belief that global energy use (allowing for improvements in energy efficiency) will rise by about 50 per cent in the next 15 years; 90 per cent of this energy, moreover, will be derived from fossil fuels – the energy source most responsible for greenhouse gas emissions. Energy demand is set to grow the fastest in developing countries, which are likely to resist the imposition of fiscal penalties designed by already prosperous industrial nations.

These scenarios are disturbing, not least for free market economists who spent much of the 1980s campaigning successfully against egalitarianism, excessive public expenditure and other obstacles to faster growth and higher living standards.

Now that these battles have been largely won, the market economy seems to be running headlong into a far more serious constraint: the environment. If the "dark greens" prove correct, the world ought to be preparing not for environmentally-friendly growth, but for no growth. Indeed, if Third World countries are to escape poverty, the developed world might have to accept slightly lower living standards.

At present, there is no chance of this happening. The environmental threat, rightly or wrongly, is perceived as a distant cloud on the horizon, not as a serious constraint on expansion.

The boldest initiatives likely in the developed world are tax reforms designed to encourage less dirty growth. Even this kind of intervention will be galling for some: fiscal neutrality – the principle that taxes should not be used to influence individual or corporate behaviour – became a totem in the 1980s.

Apart from supporting an international carbon tax and taking more vigorous steps to promote energy conservation, what can the UK do to promote green growth?

One obvious move, suggested by the Institute for Fiscal Studies, would be to tax all fuel consumption more heavily. At present Britain is the only EC country not to impose value-added tax on household fuel. This means that domestic energy is taxed less heavily than any other good, even though it imposes the heaviest costs on the environment.

The domestic motorist is the other obvious target. On average each car produces four tonnes of carbon dioxide a year; road usage, moreover, is expected to double by 2025. The most effective way to encourage people to use cars less is to raise the price of petrol, which in real terms is well below the levels of the late 1960s.

The IFS calculates that a 55p increase in petrol duty would be needed to bring real prices back to their peak 1975 level; this would still leave British prices lower than those in Italy. The abolition of tax benefits for company cars (50 per cent of the UK market) would be a quick way to promote the use of small cars.

The Government should recognise, however, that many environmentally-desirable measures, such as VAT on domestic fuel, would inflict pain on vulnerable groups such as pensioners. Some of the revenue raised by green taxes would thus have to be spent on welfare benefits of various kinds.

Green rhetoric may win votes; but politicians are likely to find green policies surprisingly contentious even if the gloomier predictions prove wide of the mark.

No need for war in Kashmir

THE LAST THING the Pakistani and Indian governments want is a war over Kashmir, the divided region of the Himalayas where India, Pakistan and China all dispute control of some of the highest and most remote land in the world. Pakistan would surely lose, as before, to India's superior military might. India has problems enough with other neighbours – Sri Lanka and Nepal – without becoming unnecessarily involved in a new conflict.

Yet enough nonsensical rhetoric is being talked in Delhi and Islamabad to make a tense situation dangerous. An early private meeting between Mr V.P. Singh, the Indian Prime Minister, and Ms Benazir Bhutto, his Pakistani counterpart, is vital as both appear more restrained and pacific than some of their advisers.

Kashmir's troubles are as old as partition in 1947, when Pakistan became an independent Moslem state. India's claim to be a secular rather than Hindu state was reinforced then, as now, by its retention of Kashmir, the only state in the union without a Hindu majority.

Kashmiris have a long and proud tradition of separateness; at partition the ruling Maharajah tried, unrealistically, to remain independent of both countries before acceding to India under extreme pressure from Delhi. War broke out immediately with armed supporters of independence swarming in from Pakistan.

Commitment flouted

A long and bitter war ended in 1948 with a UN-mediated ceasefire under which Pakistan controlled a third of the territory and India the rest including the Kashmir Valley (Moslem), the southern area of Jammu (Hindu) and the Ladakh Plateau (Buddhist). The ceasefire contained a specific commitment to a plebiscite to allow Kashmiris to determine their own future, a commitment which the Indians have persistently flouted to this day.

India and Pakistan fought a second disastrous war in 1965 over the same issue, the Pakistanis misreading the new Indian government of Lal Bahadur Shastri as being too weak to risk a military response.

The latest crisis, fuelled by dubious state election results in 1987 and a controversial state government, worsened when Mr Singh's new government appointed an unpopular Hindu governor. Pro-independence and pro-Pakistani groups both called demonstrations which quickly escalated along a familiar pattern: curfew, inflows of Indian troops, shooting and killing. Just as Mr Singh appeared to be having some success in soothing Sikh grievances in the Punjab it became Kashmir's turn to appear ungovernable.

Unproven claim

India's claim that Pakistan has fomented the troubles and has sent arms and trained insurgents across the border is unproven and unlikely to be true. Pakistan's claim that the border is sealed and that its portion of the territory, Azad (Free) Kashmir, is an autonomous state within a state, while Kashmiris in India are fighting to free themselves from Indian tyranny, is equally tendentious.

Both governments are being forced into unhelpful rhetoric by opportunists scenting the chance to exert pressure on the two minority governments; in India the Hindu fundamentalists have found an ideal issue and in Pakistan the opposition finds ready ears for demands that Pakistan cannot ignore "oppressed Moslem brothers."

The Pakistani claim that the Kashmiris should be entitled to a say in the way in which they are governed retains some force because of the 1948 commitment to a plebiscite, no matter how loudly India protests that Kashmiri participation in Indian elections makes a plebiscite redundant. It was a commitment made under UN auspices and perhaps the UN is the forum to which the dispute may eventually have to return. Better now, however, for Mr Singh and Ms Bhutto to get together quickly and agree on how to achieve the peace which both so obviously want. A moratorium on belligerent statements would be a useful start.

Quentin Peel analyses the Soviet Communist Party as it prepares to deal with Mr Gorbachev's reform proposals

What's to be done after bankruptcy

For the next two days, the fate of the Communist Party of the Soviet Union (CPSU), keeper of the sacred Leninist flame of the October Revolution, hangs in the balance.

Either it embarks on a path of radical reform which could change its very nature. Or it refuses to change, and faces possible extinction in the face of mass popular revolt.

Mikhail Gorbachev will be presenting to the ruling central committee a blueprint for a complete overhaul of the party structure, including the abandonment of its monopoly on power. The blueprint is supposed to become the platform on party rules and policy to be adopted at the next full party congress – already brought forward from 1991 to the autumn, and now possibly to be advanced again to the summer.

Mr Gorbachev will propose the first steps towards a federal party, with all the 15 republics equally represented in the ruling Politburo; grass-roots democratic control over party officials; and a division of power at the top, with a new post of chairman alongside the general secretary.

He will also put forward a party programme on which to base "democratic humane socialism," which dares to accept such ideological heresies as the existence of private property, a multi-party system, and a "planned market economy" in the reformed Soviet state.

The solid ranks of Communist conservatives will argue that those very proposals amount to the abandonment of everything they and the 1917 Bolshevik revolutionaries fought for.

Reformers like Mr Boris Yeltsin, the darling of the Moscow crowds, will say that without such sweeping changes – and probably far more radical reforms – in the heart of the ruling party, its very survival is in question.

The CPSU, the real executive Government structure of the Soviet Union, has become a bankrupt bureaucracy presiding over every aspect of life at every level of Soviet society. Since Mr Gorbachev launched his perestroika process, and liberated political debate through glasnost, its political authority has crumbled, and its officials face the prospect of humiliation in any free and fair elections.

Open rebellions and petty corruption scandals in recent weeks have left the ruling party looking even shabbier. The former leader of the Leningrad party, Mr Yuri Solovev, who was a candidate member of the ruling Politburo, the highest body in the land, has just been expelled for buying himself a Mercedes motor car.

Autocratic party bosses have been unceremoniously overthrown, along with their party committees, in huge regions like Tyumen in Siberia (heart of the oil industry) and Volgograd.

The discovery of a party car loaded with sausages and vodka in the Ukrainian city of Chernigov caused a near riot, a mass meeting, and the dismissal of the party secretary.

Now top Government ministers and an army general have been implicated in a scandal to export T-72 tanks, strategic metals, scrap metal, and strategically sensitive aviation equipment.

In the outlying republics, the upsurge in nationalist feeling has left the ruling party powerless and irrelevant, with mass desertion of its members in Azerbaijan (at least 15,000 destroyed their party cards). Only where the party has put on the clothes of the nationalists, as in Lithuania, Estonia and Moldavia, can it hope for a creditable performance in the forthcoming local elections.

Yet that compromise, in Lithuania, where the Communist Party has announced its unilateral secession from the CPSU, is part of the challenge to the future of the party with which Mr Gorbachev must now deal.

The party itself can no longer make any pretence at unity. It is deeply divided between a host of competing factions, broadly allied into conservatives and reformers. Little other than the Gorbachev charisma gives it any credibility in the country.

This now is the party that Mr Gorbachev must persuade to reform itself to save itself. If acceptance of a multi-party system goes through, with whatever bad grace, that could clearly mean agreeing to abandon power.

Party leaders are being asked to vote for something awfully like their own suicide, just as the other Communist Parties of eastern Europe have been doing. Every instinct of the central committee members must be against it.

They are the very people who have risen through the ranks of that ossified party bureaucracy, the cream of the ruling nomenklatura who owe their jobs not to any qualifications or originality, but rather to the capacity not to threaten their superiors, and to look after their peers and subordinates. The whole system is built on the principle of who you know, not what you know.

Even the old-style party bosses who have been sacked are still members of the central committee – like Mr Bogomyakov in Tyumen, Mr Kalashnikov in Volgograd, and Mr Vezirov in Azerbaijan.

The party reforms are also a critical factor for Mr Gorbachev's own position. If he gets his way, then he may be able to extricate himself gradually from the party leadership, and build up the executive presidency. If he fails, then it is hard to see how he could walk away from a party which refuses to abandon its power monopoly. But from then on, he would be hamstrung as a leader, bound to a party set on confrontation with the wider political process.

For the crucial debate on the party's new rules and platform, Mr Gorbachev today has managed to summon an enlarged plenum, including all the new figures elected to leadership posts over the past two years, since the last party congress in 1987. By definition, they should be more reformist than their predecessors – although by no means all of them are. For example, Mr Boris Gidaspov, the new leader in Leningrad, is seen as an important neo-conservative – for a more efficient, but not a more democratic system – rallying opponents of excessive change.

Mr Gorbachev's supporters say he may atlast feel strong enough to confront his conservative rivals

The radicals fear that faced with such solid conservative suspicion, Mr Gorbachev will once again offer compromise, just as he has on economic reform. Instead of proposing the outright abandonment of Article 6 of the constitution – which enshrines the "leading role" of the Communist Party – they fear he will simply go for a more ambiguous wording. Instead of real grass-roots democracy, with all officials facing regular re-election, and a requirement that there must be alternative candidates, they fear he will also choose some modified form leaving effective choice in the hands of the party apparatus.

Yet the indications of the past week suggest the contrary: that although Mr Gorbachev's overhaul of the party may not amount to an immediate and enthusiastic espousal of a multi-party system, it will allow it to happen. He will suggest scrapping the constitutional guarantee of the party monopoly, not merely amending it. And he will admit that economic reform, leading to a market economy, can even include private property.

The whole blueprint has been kept to an extraordinarily close circle in the highest echelons of the party – many in the central committee staff swear they have not seen a glimpse of the final version, or even recent ones.

However the word is out, from close supporters of the party leader, that he has pulled off a major coup against his conservative opponents over the past week. They are even convinced that he may at last feel strong enough to face down his conservative rivals in the ruling Politburo, including Mr Yegor Ligachev, his erstwhile number two, and Mr Vitaly Vorotnikov, president of the Russian federation.

Mr Gorbachev's supporters insist that Mr Ligachev attempted to go behind his leader's back last week, in a direct approach to the military commanders in Azerbaijan to escalate the military action in the republic, and crush even the moderate nationalist leaders in the Popular Front, as a threat to Soviet power. That strategy was spelt out in public by General Dmitri Yazov, the Minister of Defence, and another likely casualty – and immediately denounced by Mr Eduard Shevardnadze, the Foreign Minister, and one of Mr Gorbachev's closest confidantes.

Certainly last week Moscow News, controlled by the government's Novosti News Agency, dared to print an extraordinary and extensive attack on Mr Ligachev, declaring: "If his line in perestroika does not gain the upper hand, he will have to quit the political scene . . . Ligachev stands up for the most unhealthy elements in socialism." Even by the standards of today's glasnost, such an article is amazing.

Supporting the thesis of a co-ordinated Gorbachev offensive against conservatives has been the string of revelations in the past two weeks of petty corruption among powerful party officials, and the wide publicity given to grass-roots revolts like Tyumen and Volgograd. It bears the hallmarks of a campaign co-ordinated by Mr Gorbachev's allies in the KGB.

Yesterday, Pravda, the central committee newspaper, ran a long reminder of the excesses and corruption which occurred when Mr Geidar Aliyev ruled Azerbaijan. It is as if the Soviet leader and his allies are warning those still in positions of power that they can rapidly be exposed if they fail to toe his line.

Yet a big question remains over just how far Mr Gorbachev himself may want to go. He is determined to maintain a socialist system in the Soviet Union, albeit one with a human face. Does he recognise how bankrupt the Communist Party bureaucracy at the local level has become?

The Soviet leader may be delighted to see leading conservatives ousted from their positions around the country. He must be more worried by the trend to sack not just the party boss, but the entire party bureau as well.

Indeed, the television pictures of a mass rally in Volgograd, insisting that the sacking of Mr Kalashnikov was not enough – the whole local leadership must follow – looked ominously like exactly what has been happening in East Germany and Czechoslovakia.

Popular bitterness with the whole structure of "the power" – Party, Government, KGB or military – is deep. Mr Gorbachev has failed to tap any significant vein of sympathy for the fact that his perestroika reforms must inevitably cause more chaos before they can provide any cure.

The Soviet leader faces the classic dilemma that the economic austerity essential for genuine reform, including a radical overhaul of the subsidised price system, is incompatible with the explosion of popular debate. Every attempt by the government to liberalise, to raise some prices to become more realistic, or allow enterprises and co-operatives to charge what the market will bear, runs into hysterical popular opposition.

In order to compel the party to change, Mr Gorbachev has played an intricate game, setting one institution against another. He has already largely succeeded in making the new Supreme Soviet, elected through the Congress of People's Deputies, the real centre of power and debate.

Few would doubt that the leak to CNN television last week, suggesting that Mr Gorbachev might consider giving up the Communist Party leadership and concentrate on the state presidency, was a deliberate plant by an ally of the Soviet leader. It was not realistic at this moment, but it was well worth reminding the party barons of what could happen if they refuse to change. It was also widely repeated by the Soviet media, thanks to Mr Gorbachev's furious denial.

The leak was immediately followed by articles in several Soviet publications debating the need for a stronger presidency, and blaming indecisiveness on the continuation of divided rule between party and executive government.

The truth is that the Communist Party is already far less relevant than it used to be. Mr Gorbachev's reform proposals are needed not so much to revive it as a force, as to manage its decline. He has to persuade or shame his defensive and increasingly desperate party barons into letting it happen. That is the gamble he has taken.

OBSERVER

Gorby has his fans

■ An intriguing invitation has reached us via our New York Office. It is to join the Mikhail Gorbachev Fan Club.

For a membership fee of $20, you can have a year's subscription to Glastnost (sic), the official newsletter of the MGFC, a membership certificate (suitable for framing), a membership card (suitable for carrying) and a "Go Gorby Go" bumpersticker and button.

All those are in "appropriate shades of pinko-pink." There is an additional line of quality products, which go into other colours and for which you have to pay extra. For instance, the MGFC official T Shirt at $15: "In all sizes, silkscreened logo, black on pink in 100 per cent cotton."

Other offers include the MGFC official cap: "One size fits all. Logo, blank on pink, $10," and a ceramic coffee cup, also in black and pink at $10 and bearing the lettering: "Wake up and smell the Glastnost."

The most expensive item so far is a logo wrist watch: "Battery powered quartz movement, gold plated thin case with genuine leather band. $50."

More is in the pipeline. Future products will include "Club Gorby" fashions and accessories, decoder rings, imported Russian products and some things called decals and tattos.

Anyone who joins the Club and recommends another member will receive "Gorby Dollars" which are redeemable for MGFC goods. Moreover, members have the opportunity to apply for a seat on the MGFC Central Committee if they can show that they have the right mixture of talent, information and connections.

Apart from the mis-spelling of glasnost, which could happen to anyone, the brochure looks perfectly genuine: a way, as it says, of encouraging members of the club to have fun with each other.

The address to write to is the MGFC, 4614 Kilauea Avenue, Suite 417, Honolulu, HI 96816.

Spring soon

■ Prepare for an early spring. The Punxsutawney groundhog, referred to in last Friday's Observer column, did not see his shadow.

English pride

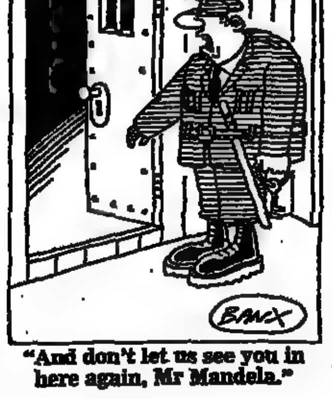
■ I was glad that England won the rugby match against France in Paris on Saturday, and I hope that it was not an outbreak of chauvinism on my part. As the reporter wrote in The Independent on Sunday: "This was an England that I have never seen before. Never in my lifetime, certainly, has a side representing the country displayed such a command of the language of international rugby."

It is rare to see England perform so well at such a level at anything. The side actually set out to win and the greatest pleasure of all was to see the forwards still going forward in the last part of the game.

According to the commentators, the last time England won by such a margin in France was in 1914 – a pregnant year. And there was perhaps just a little bit of politics in my reaction this time. It is not good for the French to have the impression that the English are falling behind in everything. If the score had been the other way round, they might have done.

Closing shots

■ Observer's campaign to get rid of the double genitive is closing, largely along the lines of the American politician who said of Vietnam: "Let's get out



"And don't let us see you in here again, Mr Mandela."

and say we've won."

All that Observer wrote in the first place was that "He is a friend of John Major's" must be wrong because the apostrophe "s" is redundant. I do not think that anyone has refuted that, although many readers have pointed to other genitive anomalies and several have said that it is a Sisyphean task to try to impose logic on the English language.

Most readers, however, want Observer to take up quite different linguistic campaigns. Michael Lake, writing from the Office of the European Commission in Tokyo, thinks that the airlines are especially guilty of tautology and redundancy.

For example, the statement "Captain Yamamoto and his entire crew welcome you on board this flight..." is unlikely to be completely true. And "We ask you to extinguish all smoking materials" could be replaced by the simpler "Stop smoking."

Peter Walker, writing from Holland, also complains about the the airlines' use of language, as in: "We will be taking off momentarily." He is equally annoyed by excessive deference to anti-sexism and claims to have seen a restaurant bill in Washington, on which was written: "Please pay your waitperson."

P. G. B. Wills of Tunbridge Wells asks us to campaign against the use of the comparative question in television interviews. For instance: "How lucky are the family to be alive?" Or: "How disappointed is the Archbishop?"

Professor J. Patterson, writing from addresses in Huddersfield and Kent, suggests that the rot set in when people stopped being obliged to learn "My, thy, his, her, its, our, your their," as he was at a Presbyterian church in Comber circa 1930.

A point that is quite hard to answer comes from Irvina Donsky in Toronto. He says that there are times when "A word of Coleridge's" means something quite different from "A word of Coleridge." Perhaps that is the exception that proves the rule.

Meanwhile, suitably chastened, we accept that the Financial Times does make the odd mistake of its own.

Loose change

■ News item from a recent issue of Canada's Financial Post: "The Federal Business Development Bank has stripped its chief operating officer of all responsibilities and dressed down 14 other managers for lending $17m to strip clubs."

The Bank has reported to Canadian MPs that the employees are being punished for not carrying out their duties properly, but admits that its own lending guidelines were imprecise and caused many of the staff to make honest mistakes.

Black humour

■ "Why did the South Africans keep Nelson Mandela in jail so long?" "Because they were hoping that he would turn white."

Michael Prowse argues that tertiary colleges will encourage students to stay in school longer

An end to educational segregation

Nearly everybody in British education seems to agree that the 16 to 19 year old curriculum will have to be reformed radically if Britain is to encourage a larger proportion of young people to remain in full-time education and training. Shortly before Christmas, Mr John MacGregor, the Education Secretary and a stout defender of the anachronistic Advanced (A) level examination system, decided this was a bandwagon he had to ride.

He conceded that A levels do not provide a natural progression for some 16-year-olds and urged schools to offer a wider range of vocational qualifications. Mr MacGregor wants the curriculum for all students to include "core skills" such as numeracy, communication, familiarity with information technology and the world of work, personal skills, and competence in foreign languages.

Curriculum reform is certainly vital. But it is not the only factor likely to influence staying-on rates. The institutional framework for delivering education and training for 16 to 19 year olds also needs reviewing. The present structure tends to reinforce several artificial divides: that between academic and vocational education; that between full-time and part-time study; and that between youth and adult or continuing education.

A minority of bright students follows full-time academic courses in school sixth forms or sixth form colleges. The normal pattern is to take three A levels, often in related subjects. Such institutions offer few opportunities for either vocational or part-time study. The failure and drop-out rate is high as many students discover too late that A levels are not for them; only 14 per cent of school-leavers pass in two or more subjects.

The non-academic majority (the "goats") leave school at 16. A small proportion follow full-time vocational courses at colleges of further education (FE). A significant chunk join the Youth Training Scheme, which may involve part-time study at the local FE college. But around a third of all 16 to 19 year olds go straight into full-time employment and receive no training.

The school system is thus organised to serve the interests of a predominantly middle class academic élite. FE or technical colleges, which tend to be situated at the "wrong end" of towns, cater for the educational proletariat. Such colleges offer A levels but specialise in vocational education. Many courses are designed for part-time and mature students. The sector thus provides a refuge for those dubbed "failures" at school.

The question raised by curriculum reform is whether the traditional school/FE college division still makes any sense. How can participation rates be raised when full-time study is still usually presumed to mean academic study? How can the prestige of vocational courses be raised when the best state and independent schools focus almost exclusively on A levels? The short answer is by ceasing to segregate academic sheep from vocational goats: ideally 16 to 19 year olds of all abilities and persuasions ought to be educated together.

This already occurs in Britain's 50-odd "tertiary colleges." These are state-funded institutions run under FE regulations which offer a full range of academic and vocational courses for everybody over the age of 16 – mature students as well as teenagers. The concept of tertiary colleges was first advanced in the late 1960s as an extension of the comprehensive ideal that was revolutionising secondary education.

The "tertiary movement" has steadily attracted support since the early 1970s, despite predictable opposition from both FE colleges and schools (which are reluctant to lose their sixth forms). The concept has cross-party political support: in recent years both Labour-run Sheffield and Conservative-run Harrow have "gone tertiary."

Mr Graham Phillips, the principal of the Henley College, Oxfordshire's only tertiary college, is a strong advocate of this educational model. He deplores the division between "makers and thinkers" which characterises much of British education, arguing that at his college every course and type of student enjoys "parity of esteem."

The Henley College was created in 1987 through the merger of South Oxfordshire Technical College and King James's College, the local sixth form college. The very names of these defunct institutions sum up post-war attitudes to academic and vocational education. Now everybody in the Henley catchment area rubs shoulders at the same college – unless they opt for the independent sector. This is surely a psychological step forward.

Mr Phillips runs a large and diverse institution. The college has an annual budget of £3.5m, employs 120 full-time and 300 part-time staff, and offers courses to 1,400 full-time and 700 part-time students. In addition, some 2,500 adults attend day and evening classes.

Lydia van der Meer

Graham Phillips, Principal, in an art class at Henley College

Like supermarkets, these colleges offer a wide range of good courses. Many sixth forms, by comparison, are corner shops

To anybody educated in a conventional school, the range of courses will appear bewilderingly broad. On the academic side, students can choose from 40 A levels, including such non-standard subjects as dance, fashion and textiles, philosophy, and design and technology. Nine languages are offered including GCSE Arabic, Japanese and Russian.

From next autumn, the college also intends to offer the International Baccalaureate. This is a broad pre-university programme involving the study of six subjects including maths, English, a foreign language, an experimental science, a social science and an elementary course in epistemology. The college is offering the IB partly out of frustration at the Government's failure to accept the Higginson Committee's recommendations for leaner A level courses and partly because it thinks demand for a European style education will rise as the 1992 reforms gather momentum.

On the vocational side, the college offers around 20 Business and Technician Education Council (BTec) courses, including two-year full-time programmes in business and finance, leisure studies, art and design, engineering and electronics. The college co-operates with local businesses such as Fads DIY, Rouse's Honey and Harvey Forklift, providing some 20 YTS courses in fields such as catering, motor vehicle servicing, construction and hairdressing. A plethora of classes for adults range from A level maths to City and Guilds photography and "Ice Your Christmas Cake." The college also educates young offenders and the severely handicapped.

Strong educational, social and economic arguments favour the tertiary model. On the educational front, few conventional schools can hope to match their range of academic options, let alone bridge the academic/vocational divide. The diversity of courses offered at tertiary colleges makes them the perfect environment in which to forge the new kind of "core skills" curriculum advocated by Mr MacGregor and many educationalists. What other institutions have experience of both YTS courses and Oxbridge tuition?

The social arguments are equally powerful. Tertiary colleges are melting pots in which people of different ages, abilities and backgrounds can mix freely. Such institutions, while placing considerable emphasis on "pastoral care," offer 16 to 19 year olds a more adult environment than secondary schools. As Mr Phillips puts it, "we ease students towards independence." Young people who would not consider staying on at school may happily attend such colleges. Mixing with mature students may also encourage the view that learning is a lifetime activity rather than something that stops at 16, 18 or 21.

From the Government's point of view there are also powerful economic arguments in favour of tertiary colleges. Such institutions are the educational analogue of supermarkets in the food industry. Like Tesco and Sainsbury, they can exploit economies of scale to offer a wide range of quality courses. By comparison the sixth forms of many comprehensive, grammar and private schools are inefficient small corner grocer shops. It is hard to believe they will ever be able to afford to offer a wide range of vocational courses.

Yet as Mr Sean McLoughlin, the secretary of the Tertiary Colleges Association, points out, the Government's attitude to the tertiary model is at best "ambivalent." Instead of promoting the kind of institutions best able to bridge the academic/vocational divide, ministers have advanced down ideological cul-de-sacs. For example, they have strained relations with local authorities by investing enormous sums in a handful of free-standing City Technology Colleges.

These will doubtless provide a good education for some youngsters. Yet the vocational and scientific education the CTCs are supposed to be pioneering is already being provided by tertiary colleges, which extend their net to mature students. The difference is that the tertiary colleges have the resources to balance science and technology with a very wide range of cultural and artistic activities.

The provisions allowing state schools to "opt out" of local authority control are potentially more harmful. Tertiary colleges can often be created only by removing sixth forms from local secondary schools. In future the automatic reaction of threatened schools may be to opt out of the local authority system. This may give students a wider choice of schools but it could paradoxically narrow their educational opportunities – because none of the corner shops would be able to offer a full range of academic and vocational courses.

But perhaps the strongest argument in favour of tertiary colleges is their popularity with students and parents. A recent favourable assessment of Harrow's tertiary system by Her Majesty's Inspectorate noted that demand for places had far exceeded forecasts.

The story is the same at Henley and elsewhere. Mr Phillips notes that the staying-on rate at 16 is nearly double the national average. The college's full-time student population has risen by about 30 per cent since 1987, a period of declining school rolls. More encouraging still, about 25 per cent of the college's intake represents transfers from the independent sector. When most of the traffic heads the other way, this surely suggests that tertiary colleges are doing something right.

LOMBARD

How the East can jump ahead

By Hugo Dixon

EASTERN Europe's new Governments have rightly targeted telecommunications as one of their development priorities. So long as customers have to wait five to 10 years for a phone line and frequently spend the whole day trying to get through to one another, it will be difficult to get other sectors of their economies moving.

However, in trying to build modern communications systems, the new Governments may be tempted to ape the West both in technology and in regulatory structures. They may hope to catch up with the West by digging up the roads to put in copper cables. And they may suppose that the best way of encouraging investment is to guarantee the monopoly positions of their operators.

This would be a pity because eastern Europe has a chance not merely to catch up with, but to leap-frog the West.

Instead of sticking to the traditional practice of putting hard-wire connections into every office and home, they would be wise to go straight to mobile communications. And they would develop their networks more rapidly if they opened their markets to competition than if they stuck with their old monopolies.

The benefits of using mobile communications to provide basic services – not simply to reach an elite market – are already becoming apparent in the West.

By the mid–1990s, the costs of mobile technologies are expected to have fallen to levels where they are competitive with fixed technologies. Mobile systems may use more complex electronics than fixed systems, but it is unnecessary to dig up roads to construct them – the most expensive part of building a traditional network.

The backwardness of eastern Europe's networks means it makes sense to use mobile systems for the basic phone service now, not in five years time. The existing networks are so run down that most of them need replacing anyway. So, in contrast to the West, there is not a huge amount of useful investment already sunk in fixed networks.

Moreover, there are fewer than 10 phones for every 100 people in eastern Europe compared with a typical figure of about 70 in the West. When density is high, it is relatively sensible to use fixed links because the links do not need to be very long. The opposite is true when density is low.

Beyond these technical reasons, there are powerful economic arguments why eastern Europe should go mobile. One is that it is much quicker to get a mobile system up and running and it is therefore the best way to cut waiting lists. Another is that it will be easier to attract foreign funds to invest in mobile projects because of the current excitement in the West over anything to do with mobile communications.

This, of course, assumes that eastern Europe opens its borders to foreign investment in telecommunications and abandons its monopoly structures.

The lessons of the US and UK are that deregulation leads to greater investment in infrastructure because established operators have to modernise their networks if they are to keep up with their new rivals. Deregulation also leads to the provision of a wider variety of services because entrepreneurs have an incentive to think of clever ideas.

The advantages of deregulation will almost certainly be even greater in eastern European countries because they do not have enough funds of their own to invest in networks. By opening their markets, there is the prospect of using foreign money to make a rapid transition from ancient to modern systems.

Some may argue that, if the market is fully liberalised, foreign companies will concentrate on the business market and neglect residential customers. It would be possible to guard against this by requiring all players in the market to pay a special levy to subsidise residential services.

Moreover, with residential customers now getting such a bad service or no service at all, they could hardly be worse off. At least those with a pressing need to communicate would be able to buy a mobile phone.

LETTERS

Competition as the only spur industry requires

From Mr J.M.M. Banham.

Sir, Richard Layard ("The fallacy about productivity and pay," January 31) aimed to show where senior ministers and the Confederation of British Industry were wrong. But he conveniently ignores one crucial fact. The policies that he proposes were tried – and failed – in the 1970s. As a consequence, he merely repeats three fallacies that lie at the heart of our current difficulties.

First, Layard suggests that while pay should match productivity across the economy, it is somehow not appropriate for pay to match performance at the company level. It is precisely this kind of thinking that led the UK in the 1970s to become a low-pay, low-performance economy by international standards. The drive to raise performance cannot be separated from the issue of pay. In the 1980s, it was the recognition of this at the company level that enabled us to move towards being a high-pay, high-performance economy. Nor should we pretend that certain sectors of the economy are somehow immune from performance improvements. Pay must affect individual performances throughout the economy, in the public and private sectors.

Second, it is proposed that there should be a going rate for pay, regardless of performance. Again, this approach was discredited in the 1970s. Indeed, it is our lingering addiction to the notion that pay rises must always, at least match the retail price index – a habit acquired during our previous dalliance with "going rates" – which is making it so difficult to hold pay movements across the economy to the rise in output. The laws of economics do not ordain that our standard of living should always be maintained, regardless of our performance or willingness to invest rather than consume. Flexibility in setting pay levels reinforces the awareness among employees that their well-being depends on the performance of the enterprise that employs them. This should be encouraged, not stifled.

Third, Layard suggests that the CBI should act to "persuade its members" to accept a going rate of pay settlements. CBI members have no desire for such a return to the corporate state mentality of the 1970s. They need no lectures from their Director-General on how to run their businesses and control costs. Nor will any be given; competition is the only spur they need.

J.M.M. Banham,
Director-General,
CBI,
Centre Point,
103 New Oxford Street, WC1

From Mr Peter Oppenheimer.

Sir, Richard Layard's generally pellucid exposition of the case for going-rate pay settlements contains one confusing blemish. This is his claim that productivity-based pay leads to inefficiency because employment patterns will be skewed towards the low-wage sectors.

If the labour market were sufficiently segmented to permit such an outcome, it would not necessarily be inefficient, and the alternative might be unemployment of the low paid. In reality, the labour market is not segmented, and the inefficiency observed in practice is the opposite of that suggested by Layard.

Lagging wage sectors experience shrinkage or degradation of their output, because of inability to recruit labour. The Government acknowledged this recently in relation to tax inspectors. Sooner or later it will have to do the same in relation to ambulance men.

Peter M. Oppenheimer,
Christ Church,
Oxford

Auctioning airport slots

From Mr Paul Seabright.

Sir, Mr King's statement (Letters, January 29) that an auction system for airport slots would greatly raise BAA's profits is true only if BAA were to keep all the revenue.

Since the exchequer would have received a significantly higher price when BAA was floated if such a system had been in place, it would be entirely reasonable for the exchequer now to receive a royalty in exchange for the necessary regulatory changes.

Many uses for the revenue suggest themselves, including the UK's share of investment in a proper European air traffic control facility.

The question of who should keep the revenue is quite distinct from the question of whether access to airport slots should be allocated by a pricing mechanism. Markets in slots would not work perfectly, but are much to be preferred to the current system. This discriminates against new entrants and encourages the takeover of whole airlines when all the purchaser requires is access to slots.

Paul Seabright,
Director of Studies
in Economics,
Churchill College,
Cambridge

The toughness of Nikkeiren

From Mr Jon Woronoff.

I welcome the letter by John Crump (Letters, January 26) countering Ronald Dore's observations (Letters, January 22) on Japanese-style consensus management. I agree that Mr Dore must be living on a different planet.

I have spent 10 years in Japan and 20 studying that country and I have never encountered anyone who would recommend the employer's organisation, Nikkeiren, as a model for consensus-building. While there are some Japanese organisations and some Japanese business leaders who do seek consensus and harmony, Nikkeiren is most assuredly not one of them.

It is known historically for its confrontational approach to keeping labour in line and in past years has repeatedly pressed for the lowest possible wage rises and the smallest possible concessions to the unions.

I do not think that Nikkeiren would object to this evaluation. In fact, it must be feeling embarrassed by Mr Dore's intimation that it is anything but tough.

Jon Woronoff,
3839 Rodman Street NW,
Washington DC

Azerbaijan and the nasty repetitions of continuing history

From Ms Gill Burke.

Sir, Edward Mortimer's comments on the situation in Azerbaijan ("No crusade, no jihad," January 30) were interesting and timely. They show that not only is history far from at an end, as that silly fellow in the US would have it, but also that nasty repetitions are all too frequent.

Nationalist and ethnic animosity in Transcaucasia predate the 1917 examples quoted by Mr Mortimer and well predate the Russian revolution. In 1905 and 1906 there were similar riots and massacres to those of 1917 and of today.

The British Ambassador to St Petersburg, Sir Charles Hardinge, wrote to the Foreign Secretary that "religious antagonism between the two races has for long past been carefully fanned by revolutionary agents, with the object of creating difficulties for the authorities and producing a state of anarchy all over Russia, by which they hope to overthrow the present government." Many a thoughtful analyst might say the same today.

The ambassador's concern reflected Britain's interest in what was then one of the world's most productive oilfields. Between 1899 and 1902 the Baku district yielded more oil than the total output of the US. British money accounted for about 80 per cent of foreign investment in Russian oil.

Foreign companies were sequestered at the revolution, and oil productivity declined, but, judging by contemporary descriptions, little else seems to have altered.

Those of your readers keen to learn from past events, and unable to wait for a reprint of Firuz Kazemzadeh's The Struggle for Transcaucasia, mentioned by Edward Mortimer, should turn to K.H. Kennedy's Mining Tzar: the Life and Times of Leslie Urquhart (Allen and Unwin, 1986). Urquhart's lasting memorial is Mount Isa Mine in Australia, but from 1903-1906 he was in Baku. Kennedy's early chapters present a fascinating account of " . . . a city of Blood, a Hell on Earth."

Gill Burke,
South Downs Farm,
Chyenhal,
Near Kerris,
Penzance, Cornwall

FINANCIAL TIMES
Monday February 5 1990

US and Bonn agree reunification timetable

By Our Foreign Staff

THE US and West Germany have reached a broad understanding on a timetable and framework for handling German reunification.

Agreement was reached late on Friday at a meeting in Washington between Mr James Baker, the US Secretary of State, and Mr Hans-Dietrich Genscher, the West German Foreign Minister.

The main features of the joint US-German approach are that West and East German leaders will open talks on economic and monetary union immediately after the March 18 elections in East Germany.

They will present their discussions on unity to a 35-nation European summit, attended by the US and the Soviet Union, to be held in late October or November. The Conference on Security and Co-operation in Europe (CSCE) will also ratify a treaty substantially to reduce conventional forces in Europe.

Mr Helmut Kohl, the West German Chancellor, outlined elements of the framework on Saturday, in an address to businessmen assembled at the annual World Economic Forum in Davos, Switzerland. He focused on the security and economic structure of Europe into which a re-unified Germany could fit without raising the fears of its neighbours or threatening broad East-West interests.

His blueprint would entail the creation of a security structure spanning Nato and the Warsaw Pact, which could be prepared at CSCE.

Mr Baker will put the joint US-German ideas to the Soviet leadership when he arrives in Moscow later this week. Mr Baker is due to meet Mr Roland Dumas, French Foreign Minister, tomorrow on a refuelling stop in Shannon, Ireland, on his way to Prague for a two-day visit before going to Moscow.

Pressure for the re-unification of the two Germanies accelerated recently after proposals by Mr Hans Modrow, the East German Prime Minister, for a neutral, unified German state and by Mr Eduard Shevardnadze, Soviet Foreign Minister, for an international referendum on reunification.

There has recently been a marked shift in US policy towards closer involvement in the reunification question because of fears that events are moving out of control without an adequate framework to take account of wider East/West security interests. US policy is still developing, with an urgent National Security Council review under way, and Mr Baker is, as often in the past, pushing policy forward.

The Western allies, notably Britain and France, will be looking to a reassurance from the US that their concerns about the avoidance of a neutral Germany and about the role of the Second World War allies, especially in relation to Berlin, have been safeguarded.

But Mr Kohl rejected the idea of German neutrality. A united Germany should not have a special status in the heart of Europe which would isolate it, he said.

Such a proposal could "wipe out at one blow the lessons of history." The alliance between Europe and North America remained indispensable.

"I think I am right in saying that this is clearly recognised in Moscow, too," Mr Kohl said.

Mr Modrow said yesterday the Chancellor's rejection of a neutral Germany had not made his reunification offer obsolete. He had expected his proposal to bring out differing views.

German heart for the new Europe, Page 2

MERGERS AND ACQUISITIONS

W Europe takeover deals surge to $51.7bn

By Guy de Jonquières, International Business Editor, in London

ALMOST 1,300 cross-border mergers and acquisitions with a disclosed value of Ecu 45.3bn ($51.7bn) were made in western Europe last year, most of them in the second six months, according to Translink's European Deal Review.

The surge in the number of such deals, which is believed to be a record, was propelled by a powerful increase in activity by US companies, which made European mergers and acquisitions worth Ecu 13.8bn – more than companies from any other country.

Almost three-quarters of the US deals were made in Britain, which was by far the most popular target country for foreign acquirers. The total disclosed value of cross-border deals completed in the UK was Ecu 20.8bn, half of which was accounted for by US companies.

European activity by US acquirers was heavily concentrated in the second half of the year, when they made more than 100 deals worth Ecu 10.2bn. These included Ford's purchase of the Jaguar car company (Ecu 1.9bn) and PepsiCo's acquisition of Smith's and Walker's crisps from BSN of France (Ecu 1.2bn).

The Translink figures cover only deals which have been reported publicly. Furthermore, no value was given for more than 700 of the deals recorded. The figures do not, therefore, capture the full extent of merger and acquisition activity.

Nonetheless, it appears that a relatively small number of transactions accounted for a large proportion of the total value of deals. Fifty of the 542 deals for which a price has been disclosed were together worth almost Ecu 30bn.

Although the number of deals in the second half of the year (699) was slightly greater than in the first six months, the value of transactions was much higher, at Ecu 29.9bn against Ecu 15.4bn.

France, which had been the most active acquiring country in the first half of 1989, was in second place for the year as a whole, making 167 deals in Europe with a disclosed value of Ecu 9.7bn. By far the biggest French deal was the purchase by the Victoire insurance group of 42 per cent of West Germany's Colonia Versicherung for Ecu 1.7bn.

France was also the third most popular target country, after Britain and West Germany, for mergers and acquisitions by bidders from other parts of Europe. The disclosed value of foreign mergers and acquisitions in France was Ecu 5.4bn, of which Ecu 4.1bn was accounted for by companies based in other parts of Europe.

One of the most pronounced trends was the growing appetite of West German companies for mergers and acquisitions in the rest of Europe. These were valued at Ecu 6.6bn for 1989 as a whole, compared with a mere Ecu 300m in the first six months of the year.

Activity was swollen by several big deals, notably the Ecu 2.9bn joint bid by Siemens and GEC for Plessey, Deutsche Bank's Ecu 1.3bn acquisition of Morgan Grenfell and the Allianz insurance group's Ecu 934m purchase of part of Navigation Mixte of France.

Deals carried out in West Germany by foreign acquirers totalled Ecu 5.7bn, of which Ecu 4.7bn were made by bidders from the rest of Europe.

Britain was the fourth most active acquiring country, after the US, France and West Germany, making deals in other parts of Europe valued at Ecu 5.5bn. However, the value of all foreign deals made in the UK was almost four times higher than that, and the value of British deals by European acquirers was almost twice as big.

British acquirers made 281 cross-border deals, more than those by companies from any other European country, but most were small. Their average value was only Ecu 28m, compared with Ecu 200m for the Germans and Ecu 189m for the Americans.

The most popular target countries for British acquisitions were France, West Germany and the Netherlands, while the US, France, West Germany and Japan were the most active acquirers in the UK.

The busiest sector for mergers and acquisitions was food and food retailing, followed by automotive and aircraft, insurance and banking, and finance. These industries together accounted for more than half the total value of cross-border deals.

● *Translink's European Deal Review. 730 Fifth Avenue, Suite 1906, New York, N.Y. 10019. Tel : 212-265 7990.*

Cross border acquisitions in Europe 1989

Target nations	Ecu million	Total No. of deals
UK	20,831.6	237.8
W. Germany	5,716.3	215.9
France	5,386.0	191.4
Italy	4,121.9	104.1
Spain	2,689.4	128.4
Netherlands	1,893.3	98.5
Belgium	1,285.6	61.9
Sweden	762.1	34.9
Denmark	543.8	34.5

Acquiring nations	Ecu million	Total No. of deals
US	13,803.2	185.1
France	9,674.4	167.5
W. Germany	6,647.0	128.5
UK	5,512.0	281.6
Italy	1,681.4	52.0
Japan	1,481.6	54.6
Sweden	1,381.6	120.7
Belgium	1,018.3	27.9
Switzerland	926.4	82.9

Note: These tables include acquisitions made in European nations by US and Japanese companies

Source: Translink's European Deal Review

Bank of England seeks to change investment directive

By David Barchard and Richard Waters in London and Lucy Kellaway in Brussels

THE BANK of England will today add its weight to a growing campaign aimed at persuading the European Commission to amend a draft directive which, it is claimed, would drive investment business away from the Community.

Mr Penn Kent, an executive director of the Bank, will warn at a London conference that the fourth and latest draft of the directive - on the capital adequacy requirements for investment firms - poses a threat to all EC financial centres.

His warning marks an attempt to shift the debate, which until now has been seen as a battle between London and Brussels, into a wider context.

Last week, Mr John Redwood, UK corporate affairs minister, warned that Zurich, New York and offshore centres might benefit should the Community make a mistake when negotiating directives to regulate capital requirements, and the overall regime for financial services. EC financial centres such as London, Frankfurt, and Paris would lose out, he said.

The draft directive on investment services is intended to allow companies authorised in one EC country to operate freely throughout the Community after 1992.

Smaller London brokers and investment companies fear that the final directive will insist on high basic capital requirements without considering the actual risks and positions taken by firms.

This would favour the large West German and British banking groups and restrict competition, hurting smaller players in the international securities trading market who need high returns on their capital. Some business, the smaller houses claim, would be forced away from the Community.

Mr Redwood echoed their fears, saying: "Zurich will rub its hands with glee at the folly of the EC, if it does not get its regulations on financial services right."

A fifth and final draft of the directive is being drawn up by the Commission, but has been delayed by British objections. It is likely to be ready for discussion in the spring.

In a further move to find a compromise, Mr Leon Brittan, EC Commissioner responsible for financial services, will today seek to reassure British securities firms that new EC capital adequacy rules will not divert investment business away from Europe, or play into the hands of the universal banks.

In a speech to the Overseas Bankers Club in the City of London tonight, Sir Leon will make it clear that the new rules will be aimed at maintaining the competitiveness of European financial centres and ensuring that banks with in-house securities traders do not have an advantage over independent firms.

He will stress the need for a common set of rules on solvency for investment companies which strike the right balance between too much and too little support.

Eight die as gunmen attack Israeli tour bus in Egypt

MASKED gunmen killed eight people and wounded at least 17 on an Israeli tour bus near Cairo on Sunday, blocking the bus with their car then blasting it with grenades and machine guns, Reuter reports from Cairo.

The attack, immediately condemned by Israeli Prime Minister Yitzhak Shamir as a murderous sign of rampant hatred for Israel, seemed certain to complicate efforts to arrange Israeli- Palestinian peace talks in Cairo.

Police said three or four attackers in a white Peugeot car swerved across the path of the bus on the Cairo-Ismailiya highway at about 6pm (1600 GMT), forcing it to halt.

Mr Samiri Sultan, director of Heliopolis Hospital in northern Cairo, told reporters 10 of the 31 people on board were killed but it was not clear whether all the casualties were Israelis.

It was the most serious assault on Israelis in Egypt since 1985 when a deranged Egyptian soldier killed seven Israeli tourists on Ras Burka beach in Sinai.

Hospital sources said Egyptian border guards accompanying the bus, heading to Cairo from Rafah in the Israeli-occupied Gaza strip, were among the dead.

Israeli commentators and security sources said the ambush might have been carried out by Arabs opposed to Palestine Liberation Organisation leader Yasser Arafat's efforts to engage Israel in peace talks.

Diplomatic sources said the foreign ministers of Israel, Egypt and the US had been expected to meet next weekend in Europe to finalise preparations for a Cairo meeting between Israel and Palestinians.

Mr Shamir told Israel television the attack was serious and shocking. "(It) proves that hatred for Israel still exists and is running wild in the area," he said.

An Egyptian interior ministry statement, released by the Middle East News Agency (MENA), said the attackers used two sub-machine guns and tossed four grenades at the bus. Two of the grenades exploded.

It said three women were among those killed.

"The interior ministry deeply regrets this savage incident which led to the death or injury of innocent people," it said.

Israel's foreign ministry said Egypt had promised full cooperation in bringing the killers to justice.

The Israeli army announced that a military plane carrying a medical crew including doctors and nurses would go to Cairo to help treat the Israeli victims in Egyptian hospitals.

Tens of thousands of Israelis have visited Egypt each year since the 1979 peace treaty between the former foes.

Between 1984 and 1986 two Israeli embassy officials were shot dead and several other Israeli nationals wounded in three attacks in Cairo.

Twenty people, including the son of Egypt's late President Gamal Abdel Nasser, are on trial in Cairo on charges stemming from the three attacks.

Each assault was claimed either by telephone or by letter on behalf of Egypt's Revolution Organisation.

Hugh Carnegy adds from Jerusalem: The attack seems sure to have adverse effects on a delicately-poised proposal by the US to start Israeli-Palestinian peace talks in Cairo under Egyptian auspices. The talks depend on the go-ahead of a sceptical Mr Shamir.

It is likely to be used as evidence for not accepting the US plan by right-wingers within Mr Shamir's Likud Party who are challenging him strongly not to make any concessions to the Palestine Liberation Organisation at a special party conference on Wednesday.

The future of the talks proposal is seen as depending on Mr Shamir facing down the party rebels.

Mr Ariel Sharon, the powerful Industry Minister who leads them, said after the attack: "We can only see one thing – there is no change in the attitude of the PLO terrorist organisations. I believe these are PLO terrorists."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	17	63	Dubrovnik	S	14	57	Malta	F	15	59	Rhodes	S	15	59
Algiers	S	19	66	Edinburgh	R	10	50	Manchester	C	11	52	Rio de J'o	-	-	-
Amsterdam	F	9	48	Faro	S	16	61	Manila	-	-	-	Rome	S	15	59
Athens	S	16	61	Florence	S	16	61	Melbourne	Dr	16	61	Salzburg	S	10	50
Bahrain	C	20	68	Frankfurt	F	8	46	Mexico City	-	-	-	San Francisco	C	8	46
Bangkok	-	-	-	Funchal	C	17	63	Miami	S	22	72	Seoul	C	1	34
Barcelona	S	15	59	Geneva	S	9	48	Milan	F	7	45	Singapore	F	27	81
Beirut	-	-	-	Gibraltar	F	15	59	Montreal	Sn	-15	5	Stockholm	C	4	39
Belfast	R	11	52	Glasgow	R	11	52	Moscow	C	1	34	Strasbourg	C	11	52
Belgrade	C	11	52	Guernsey	S	11	52	Munich	S	9	48	Sydney	R	18	64
Berlin	F	8	46	Helsinki	R	2	36	Nairobi	F	27	81	Taipei	-	-	-
Biarritz	S	15	59	H. Kong	C	12	54	Naples	F	15	59	Tangier	S	18	64
Bombay	S	30	86	Innsbruck	S	8	46	Nassau	-	-	-	Tel Aviv	S	15	59
Bordeaux	S	13	55	Inverness	R	11	52	New Delhi	S	20	68	Tenerife	S	21	70
Brussels	F	9	48	Islamabad	-	-	-	New York	Dr	3	37	Tokyo	C	6	43
Budapest	F	11	52	Istanbul	S	8	46	Nice	S	15	59	Toronto	C	-10	14
B. Aires	-	-	-	Jakarta	-	-	-	Nicosia	S	18	64	Tunis	S	17	63
Cairo	F	18	64	Jersey	S	11	52	Oporto	S	14	57	Valencia	F	15	59
Cape Town	S	30	86	Jo'burg	F	22	72	Oslo	S	5	41	Venice	C	1	34
Caracas	-	-	-	Lima	-	-	-	Paris	S	10	50	Vienna	S	11	52
Casablanca	S	17	63	Lisbon	F	12	54	Peking	S	1	34	Warsaw	C	6	43
Chicago	C	-2	28	London	F	11	52	Prague	S	8	46	Washington	C	7	45
Cologne	S	10	50	Los Angeles	C	8	46	Reykjavik	F	2	36	Zurich	S	11	52
Copenhagen	-	-	-	Luxembourg	F	6	43								
Corfu	S	18	64	Madrid	S	7	45								
Dallas	S	2	36	Majorca	F	16	61								
Dublin	R	11	52	Malaga	C	16	61								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Listening for an echo from the Kremlin

Continued from Page 1

throughout in reverential silence, many likening the depth of solemn intent to the mood during the funeral of Mr Andrei Sakharov, which drew crowds of 60,000 into the freezing Moscow streets last December.

Moreover, for all the range of groups represented at the rally – bringing Baltic, Ukranian, Armenian and even Azerbaijani nationalists side by side with legion nascent democratic movements – there was a clear theme of opposition to the Party's conservative leaders. Criticism of Mr Yegor Ligachev, the Politburo member, invariably raised a cheer.

But there was little overt support for Mr Mikhail Gorbachev, the Soviet President. The clear message of the speakers and banners was a warning to the Soviet leader not to renege on perestroika – a sentiment arising from a widespread wariness over the true depth of his reformist convictions. "No right turn Mikhail," read one banner.

"People want to show the Government that there are many people in this country who will fight for democracy," said Mr Vyacheslav Tabakov, a radical candidate for the Moscow council elections, as crowds gathered before the rally. "We hope today will be the beginning of events like in Czechoslovakia; a march of change," he said. An onlooker added to make the point: "Our motto is *no passaran*."

But it was left to an historian to identify the portent of the day's events. Mr Yuri Afanasyev, rector of the historical archive and a radical deputy, summed up: "I end with a call – hail the powerful, non-violent 1990 All-Union revolution."

THE LEX COLUMN

The big business of going bust

The pick-up in corporate bankruptcies suggests that something more than a soft landing is happening in the UK economy. Given the rate of new company formation, it is not surprising that the number of bankruptcies has been steadily rising – reaching almost 8,000 last year – but the industrial and geographical spread is quite remarkable.

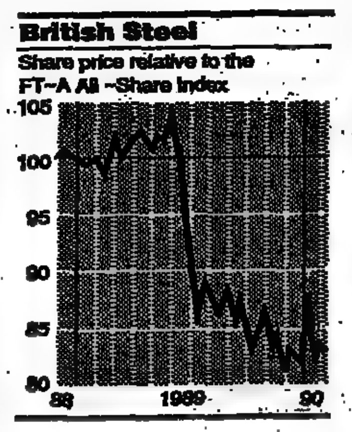
Business failures notified to Trade Indemnity in 1989 were up 20 per cent in the south-east, 35 per cent in Wales, 41 per cent in Yorkshire and Humberside and 51 per cent in East Anglia. Among the sectors, building and construction failures rose by 18 per cent; but that gloomy statistic was outstripped by food and drink (19 per cent), furniture and upholstery (28 per cent) and worst of all, clothing and textiles (49 per cent).

There is also diversity among casualties in the stock market. The six which have recently called in receivers or administrators include, predictably, a Docklands housebuilder and a shopfitter, but there are also an aerosol manufacturer and a cosmetics company. Stock Exchange companies can sometimes fall back on the value of their quote, but the shell transformation trick is more easily pulled off in bull markets and booming economies. Indeed, part of the problem for many struggling quoted companies may be the accounting techniques used during the fat years. As the saying goes, recessions uncover what auditors do not.

Obviously, high interest rates – at a time of a corporate financial sector deficit and enthusiasm for leveraged buyouts – are the main factor. Whether or not some of the big MBOs collapse, there is now a climate in which managers are eager to conserve cash by delaying payment and suppliers are unwilling to extend credit to perceived problem customers. The strong, in the act of surviving, sabotage the weak; and the banks, with plenty of bad experience in the US and developing countries behind them, are faster in pulling the plug. Whether they have been fast enough may become apparent in the coming results season as they reveal their bad debt provisions.

British Steel

Share price relative to the FT-A All-Share Index



UK petrol retailers

Elf is not the only foreign company anxious to get more heavily involved in a UK petrol retailing market which has long been dominated by just three big players – Esso, Shell and BP. Spain's Repsol and the Kuwaitis have also been aggressively expanding their UK operations, which is all rather surprising if the returns are as poor as the big boys suggest.

The structure of UK petrol retailing has remained unchanged for so long that the stock market has become sceptical about whether periodic official investigations will ever do anything to upset the status quo. However, the apparent delay in the publication of the Monopolies and Mergers Commission's latest report on the supply of petrol by wholesale could mean that the new Trade and Industry Secretary may be more interested in stimulating real competition than his predecessor. He has already toughened up a MMC report on credit cards and would begin to make a real mark if he decided to take on the big oil companies. What better way to encourage more competition in one of Britain's forgotten growth industries?

British Steel

After the buoyant conditions of 1988-89 times are getting a great deal tougher in the steel industry, a message underlined in last week's figures from Bethlehem Steel and Thyssen. But gloomy though the indicators were – sales down 14 per cent in 1989's last quarter at Bethlehem Steel, orders down 12 per cent in the same period at Thyssen-Stahl – it is hard to see why British Steel's share price is quite as low as it is.

At 133p, only 8p above the November 1988 flotation price, British Steel's shares are trading on only 4.7 times market estimates of the current year's earnings and yielding a prospective 8.2 per cent. Even if that figure is adjusted to allow for British Steel's abnormally low tax charge, the p/e comes out at less than six times, or about the same as the much weaker Bethlehem Steel. This is odd given British Steel's status as a low-cost producer, a sterling/DM relationship still in its favour, its stranglehold on the domestic market and the fact that it is further up the technological road than most rivals.

Paradoxically, one way out of this impasse may lie in the other big fact about British Steel: its strong finances. Its proposed £381m purchase of the C. Walker stockholding business and recent shadowy talks with West Germany's Hoesch show that the company could, and probably should, be buying big to strengthen its European position. But if its acquisitions end up blocked by regulators and entrenched German steel interests, at these share price levels British Steel should perhaps think about using the money to buy back its own equity.

Investment trusts

The re-animation of the Smaller Companies International Trust represents another step in the revival of the trust sector. British Steel's pension fund, having failed to hit the 90 per cent mark in its earlier bid for the trust, winds up with the investment portfolio. The new trust starts as a £64m cash shell and avoids flotation costs. The political developments in eastern Europe obviously create the right investor climate for a Germany fund; and although Foreign & Colonial may appear to be jumping on the bandwagon, there is only one other Germany-specific trust in existence.

Specialisation represents one clear way forward for the trusts, since their use to institutional investors as general funds has long been in doubt. In places such as Korea and Taiwan, foreign investors may have no other vehicle. In other small markets, investors may prefer to let professional managers face the settlement difficulties.

Last year was one of the sector's best. Discounts to net asset value have narrowed by about five percentage points to 13.5 per cent, a historically low level; and after a net outflow of £1.3bn of assets in 1988, there was a net addition of £528m in 1989. Private investors are rediscovering the sector's merits through savings schemes; and for those who want to invest in overseas markets, specialist funds are probably the best vehicle.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday February 5 1990

INSIDE

Clear view through the smokescreen

They give a rare insight into the workings of a high-powered bid defence team. Documents filed by BAT Industries with the Illinois insurance department have come to light as a result of a "leaked memorandum", concerning a meeting of BAT and its advisers on November 14. The UK tobacco-based conglomerate has been under threat from Sir James Goldsmith's Hoylake consortium, and the briefing note was apparently stolen from an adviser's office and sent to the enemy. It set out various possible courses of defensive action - ranging from acquiring a clearing bank to "greenmailing" Hoylake. Nikki Tait reports. Page 21

Paradise on cannibal island

The juiciest targets for companies seeking new markets often means looking for mouth-watering margins in typically high-value, low-volume sectors, where scale is small and the *risks of entry are correspondingly low. But* there is an alternative, explains Peter Martin. In the Business Column he looks at a report on corporate cannibalism. This discusses how advantage can be gained by entering market segments in which competitors cannot respond for fear of cannibalising their core businesses. Page 22

Lower profile for Michelin

Faced with weaker demand for its products, Michelin, the world's leading tyre manufacturer, is planning an across-the-board review of its investment plans. It says car sales slowed in the second half of last year in the US and prospect in Europe are not very good. Michelin has therefore decided to maintain its stocks in 1990 at the same level as last year, and will put off all non-essential investment plans, as well as paying particular attention to cost control. Page 19

Market Statistics

Companies in this section

Swiss hearts captured by US test-tube baby

Peter Marsh, Louise Kehoe and **Alan Friedman** on Hoffmann-La Roche's surprise deal with Genentech

Mr Fritz Gerber, chairman of Hoffmann-La Roche, is keen on thinking long-term. And over the weekend he was in a visionary mood, following a breathtaking agreement on Friday to acquire for $2.1bn Genentech, the US group that is one of the world's leading biotechnology companies.

"We will allow them (Genentech) to take a far-sighted approach," said Mr Gerber. "We are looking towards the end of the century."

Roche, the large Swiss drugs group, has for some time been studying acquisitions in the US, but last Friday's move surprised most observers.

The deal – in which Roche will take a 60 per cent stake in Genentech and has options on the rest of the shares – is probably the most far-reaching of a series of mergers and takeovers which has shaken the $130bn-a-year drugs sector in the past 12 months. It is also the biggest corporate accord so far in the infant business of biotechnology – a series of relatively new techniques for producing medicines and chemicals by rearranging genetic material.

The Roche/Genentech move will almost certainly lead to a reappraisal in the drugs industry of prospects in biotech. The discipline burst forth in the 1970s to much excitement. Since then, however, many observers have been disappointed by the failure of the technology to produce more than a small number of potentially big-selling products.

Only about 1 per cent of the drug industry's turnover comes from biotech-derived products. And while prospects over the longer term appear good, the relative lack of progress by many of the US's several hundred biotech companies in recent years has led to frustration in the US financial community.

These sentiments have applied even to California-based Genentech, which with $400m in sales is the world's biggest biotech group in terms of revenues.

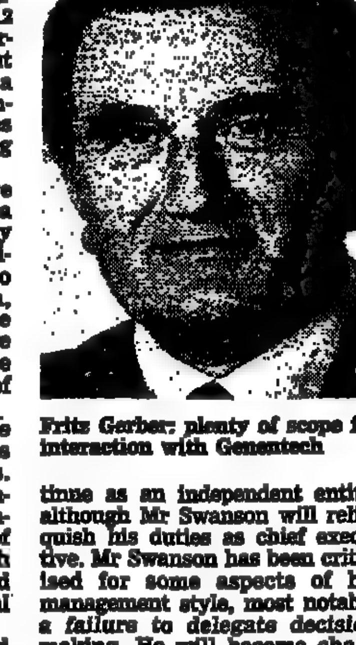
The 14-year-old company has some promising products both on sale and under development. *These include Activase, a clot-*dissolving drug for treating heart attacks which went on sale in 1987. It is the world's biggest selling biotech drug, with annual revenues approaching $200m.

For all this, Genentech realised last year it was running short of capital for funding future developments. Mr Joseph Perella, a partner of Wasserstein, Perella, the Wall Street mergers and acquisitions company that advised Genentech on the Roche deal, said that Genentech first talked about seeking a buyer last September.

"The company decided the pharmaceuticals industry was consolidating, that more financial resources would be needed and that it wanted a link that would help it achieve its goals without being suffocated."

In October, Mr Robert Swanson, the 42-year-old founder of Genentech, flew to Roche's headquarters in Basle to talk about co-operation, accompanied by Mr Kirk Raab, Genentech's chief operating officer. The move came after Genentech had sounded out a number of US and European companies.

Under the agreement reached with Roche, Genentech will continue as an independent entity, although Mr Swanson will relinquish his duties as chief executive. Mr Swanson has been criticised for some aspects of his management style, most notably *a failure to delegate decision* making. He will become chairman , while his former post will be taken by Mr Raab.



Fritz Gerber: plenty of scope for interaction with Genentech

Mr Gerber said he would "change nothing" at present in the way Genentech operates. "We will do a lot of talking and there will be plenty of scope for interaction." Over the long term, he has high hopes for a swopping of ideas between the chemistry-based research teams at Roche and the biotech-oriented scientists at Genentech.

He says that taking Genentech away from continual analysis by Wall Street will be good for the company. He said that Roche – which as a Swiss-incorporated company is reckoned to be immune from takeover and last year had cash deposits of SFr6bn ($4bn) – would "take a view that goes beyond the next quarter."

For Genentech employees, the shock move was tempered by the terms of the deal, under which Roche will pay $36 per share for 50 per cent of Genentech's outstanding stock. For most Genentech employees, 82 per cent of whom hold shares acquired though a generous employee stock options program, this represents an opportunity for immediate profit. Mr Swanson, the owner of 5 per cent of Genentech's stock before the Roche deal, stands to gain an estimated $67m.

The reaction of Genentech's key researchers to the Roche acquisition will be critical to the company's future. Genentech's top managers must persuade these young men and women, widely regarded as the best and brightest in the US biotech industry, to stay with the company.

"What attracted people to *Genentech was the opportunity* to make a difference and to hit it big financially," said one Genentech scientist. "That's why we work so hard. That's why we want to be here."

Prior to last week's events, there had been signs of problems at Genentech. In November Mr David Martin, head of research and development, resigned suddenly.

Genentech's corporate culture has changed significantly since the introduction of Activase, when the company added manufacturing, sales and marketing departments, according to current and former employees . "It used to be entrepreneurial, everybody trying to get the job done. Now it is a corporation, where politics come first," said a former Genentech manager who left the company last year.

The Genentech/Roche deal has *set off speculation about further* consolidation in the US biotechnology industry. Share prices of other major US biotech companies rose sharply on Friday. Cetus was up 8 per cent, Chiron 11 per cent and Amgen 9 per cent.

It is not clear, however, whether the Genentech deal will prompt a spate of biotech takeovers. "These things will happen from time to time but will be relatively rare," said Robert Fildes, chief executive of Cetus.

But several industry analysts said they expect the Genentech deal to spark the interest of other large pharmaceutical companies in buying up biotech ventures, if only to ensure that they are not left behind when biotechnology products finally take off.

Election year US Budget manoeuvres

By Anthony Harris
in Washington

The enjoyment of pantomime, as we all know, depends on the willing suspension of disbelief. Lose that, and you grow up rather suddenly. You see that those graceful fairies are being hauled about on wires, that the edge of a solid castle is fluttering in a draught, and that the plot doesn't make much sense.

Washington seems to be in something of that mood at the moment. President Bush's first Budget last year got a much better reception than it deserved, as his audience willingly accepted the wish or the slogan for the deed, on a whole range of programmes - education, drugs, and the environment most notably.

This year a rather more honest document has been greeted with cries of "He's got it up his sleeve!" and "Get off!." The Budget Director, Mr Richard Darman, has moderated his previous optimism a little, but is accused of wishful thinking. The President is at once too cautious and too unimaginative.

It would be reassuring to report that this more sceptical mood indicated a greater realism; but in truth it signals little more than the resumption of party hostilities. There is a peace dividend – everyone knows this, whatever the economists say – and there was bound to be a squabble over *that. What is more,* this is a high-stakes election year, and a President with such unprecedented popularity must expect attack.

So we hear that he's all talk and no do; that the credit for the good news can be divided between Mr Gorbachev and ex-*President Reagan; above all,* that he is simply out to help his own rich kind. In practical terms, this doesn't mean an enormous lot. Mr Bush has set his heart on a cut in capital gains tax; he nearly got it on its own supposed merits last year, but this year it will come with a high political price tag.

Otherwise, however, Mr Bush is not presenting much of a domestic political target; he is simply doing his best to run against an unpopular Congress, blaming the Hill for the so far invisible impact of his (largely empty) programmes to tackle education, drugs and the environment. A more interesting development is Senator Moynihan's attempt to seize the policy initiative for Congress by proposing to change from a funded to a pay-as-you go state social security system.

This move is both smart politics – it would lead in the short to a really substantial tax break for ordinary wage earners – and an attempt to introduce some genuine reality into a discussion which has so far been dominated by fantasy and dread. The fantasy has been that the future old-age incomes of Middle America are in fact secured by a trust fund; the dread has been of confronting the extremely powerful retired vote with the facts. Not even the tempting short-term rewards may be enough to persuade Congress to expose the reality.

It is hard for a British observer to envy the illusions which sustain this debate. Our own beliefs in the funded approach which underlay the post-war Beveridge scheme were burned up with inflation may years ago. Mrs Castle introduced pay-as-you-go, on the endearing assumption that the voters would always be willing to look after their old folk. Then, at the end of the 1970s, somebody started doing the sums, and another illusion was lost.

In response, Mrs Thatcher reduced the choice to the real alternatives: you could have as much pension in real terms as younger generations were willing to vote to pay, and as much future income as you could buy with your own money. That is also, by definition, the genuine choice facing the US; but it seems impossible to find acceptable language to explain the fact.

Even *those hard ideologists* of the right who have welcomed Mr Moynihan's proposal for its self-reliant principles are having difficulty in describing what is wrong with the existing system. The tax is not invested productively, they argue; and an attempt to put that right would lead to back door nationalisation. (This is of course nonsense: it would simply bid up the price of assets, as similar private arrangements have to do in Japan.)

What they cannot face saying is that even if their savings had been ideally invested, the retired would still be perceived by those at work as a burden on the economy. That plain arithmetic is seen as too plain by half – obscene, in short.

Since they cannot utter this plain truth, not even the right wingers can readily point out that there is no magic in a tax which makes a national scheme any more reliable than private saving and investment in guaranteeing any future level of wealth or income; and indeed that it is probably much less likely to do so. Social security revenue is now used as a fig leaf to cover fiscal irresponsibility, and the system will probably make the country poorer rather than richer in the long run. But to admit this would be a threat to the older voters who believe that they have "paid for" some guaranteed level of real income.

As a result of this core eva-*sion,* there is only a *muf-*fled discussion of the real economic question: is it true that higher saving today will increase national income in the future, and if so under what rules? And Senator Moynihan's entirely logical proposal may well be *defeated,* because its opponents will talk of it as "messing about with social security." I was enjoying that dream; how dare you wake me? Unfortunately for the Americans, this is only one of a number of dreams which is ending a painful awakening. Medicare is now going broke a great deal faster than social security itself, and will lead to a very expensive crisis while Mr Bush is still President.

The illusion that tax burdens can be avoided by keeping capital outlays off-Budget may last a little longer. Above all, the amazing illusion which has been sustained for several years now that *it is possible to promote growth* while fighting inflation, and cut taxes while reducing government borrowing, may have little life left.

Meanwhile, the private sector has its own dreams. There is the Wall Street dream that it is possible to strip the capital value out of a corporation, and still run the debt-laden shell as successfully as a solid company. There is the real estate dream, that even if inflation slows, real values never fall (this is no longer believed in the South West, but persists elsewhere). There are all the banking dreams, and the fall-back dream that *all the follies* of finance can be made painless by insurance.

In sum, has the American Dream itself become what bankers might call a moral hazard?

Economics Notebook

Dark side of UK spending

PUBLIC expenditure is the poor relation of the British Budget process.

*Not a single Treasury minis-*ter or mandarin felt obliged to emerge from pre-Budget purdah last Tuesday to explain the details of why or how the state will be spending nearly 40 per cent of the nation's income over the three years from April.

For the second year running, the Public Expenditure White Paper – once one of the major events of the Treasury calendar – was left to land unexplained in the in-trays of MPs and journalists.

On the day of the White Paper, a brief three paragraph note explained that its 18 volumes would contain no new statement of public expenditure policy because the Autumn Statement, published in November, was now the main vehicle for announcing overall public spending plans. The nearest that officialdom has come to *a discussion on* public expenditure policy is a short essay on the changing pattern of spending over the past 10 years in the latest issue of the Treasury's Economic Progress Report, published today.

Events in the UK were in marked contrast with those on the other side of the Atlantic. With much fanfare, the US administration last week initiated what will be many months of debate on spending policy and detail when it unveiled its Budget proposals for the 1991 fiscal year starting next October.

No one would claim that the US system, with its bargaining and pork barrel politics, is an ideal way of establishing priorities in public spending. But neither is the lack of debate on public expenditure in Britain.

Mr Christopher Johnson, Chief Economic Adviser of Lloyds Bank, argues that the British system lacks a mechanism for reviewing priorities and involves an insufficient *qualitative assessment of value* for money.

Mr Johnson, who advises the House of Commons Treasury and Civil Service Committee on public spending issues, also complains that it is increasingly difficult to interpret the information the Government supplies.

It is impossible, for example, to work out real, inflation-adjusted spending levels in the various departments because the Government does not, as a rule, disclose the differing inflation rates for health, defence, transport and the rest.

An added complication from this April will be the decision to exclude self-financed local authority expenditure from the Government planning total. This makes comparisons difficult.

The British habit of splitting the Budget, with the revenue *raising half in March and the* spending half in November, does nothing to aid understanding. Whereas Americans generally appear obsessed with how their governments spend their "tax dollars," the average Briton seems not to link taxation and public spending.

A more serious failing is the method of determining departmental spending totals. The public expenditure round pitches individual ministers against the Chief Secretary of the Treasury in gladiatorial combat for almost six months to November each year.

The discussions are carried out behind a veil of secrecy, pierced only by self serving leaks from the various spending departments. According to Professor Alan Budd, economic adviser of Barclays Bank, the system militates against intelligent changes in spending strategy. Priorities depend on how far individual ministers succeed in pressing their individual cases against the Treasury. The able civil servants of the Treasury *are the only ones* with an overview of what is happening to the departmental bids, and their training is always to say no to increases.

The Government is hardly involved in the process: the full cabinet discusses the outline of the spending plans in July and briefly before disclosure in the Autumn Statement in November.

If the Autumn Statement were the beginning of a serious debate on spending priorities, there would probably be less cause for concern. But last week's White Paper showed that public spending plans, once decided, are only changed at the margin.

There are some sound reasons for such immobility. The inflationary experiences of the 1970s put cash planning and firmness at the centre of public spending. But senior back *benchers say that the interest* in debating public spending issues in the House of Commons is very low, suggesting that a parliamentary counterbalance to Treasury rigour may be missing.

One way forward may be to make the entire public expenditure debate more accessible. Next year, as part of a plan promoted by Professor Andrew Likierman of the London Business School, the White Paper will be replaced by departmental annual reports.

Diverse reports will not provide a strategic overview of public spending. But if they are interesting and intelligible, unlike the dry and complex fare served up in last week's White Paper, they may prompt more people to ask what really is happening to the taxpayer's pounds.

Peter Norman

THIS WEEK

THE US continues to dominate the economic scene with the release of the December producer price indices on Friday and a round of Treasury bond auctions that will test Japanese interest in the Treasury market.

Analysts are expecting a shock from the producer price figures, principally as a consequence of the fierce cold spell that has raised seasonal food prices.

The freeze is expected to have a sharp impact on the index, which includes energy and food.

This index showed a 0.4 per cent rise in December, an increase which did not reflect the surge in demand for oil. The market is looking for a substantial increase of 1.2 per cent in the inclusive index, while the index excluding food and energy is expected to show a more modest rise of 0.3 per cent.

Also in the US is the quarterly refunding and three Treasury note and bond auctions. (On Tuesday, of three-year notes; Wednesday, of ten-year notes, and Thursday, of 30-year *bonds.*)

Both bond and equity markets are waiting to see whether Japanese investors will stay away. If he does, the bond auction could meet an unresponsive and nervous market, especially in the wake of the unsuccessful auction of Resolution Funding Corporation bonds.

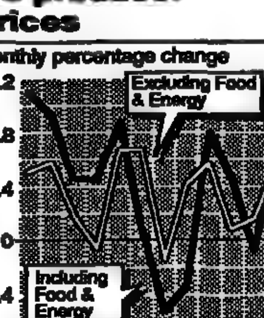
*Losses sustained in the Japa-*nese bond markets have led investors to realise profits on other major markets.

On Tuesday, the Federal Open Market Committee – the Federal Reserve's chief policy-making unit – meets. It has been expressing growing concern about the results of the Fed's anti-inflation strategy. Some analysts are expecting the FOMC eventually to sanction lower interest rates – though not at this week's meeting.

This would lead to a rally in the US bond market, as it

US producer prices

Monthly percentage change



would give an incentive for yields to continue declining.

In the UK, attention is focusing on Thursday's publication of the Bank of England's Quarterly Bulletin, which will be scoured for clues about monetary policy.

The main domestic events are the final estimate of retail sales, credit business, and housing starts and completions for December, all out on Monday.

The retail sales figures should confirm there was a rise in consumer spending before Christmas.

In December, there was a large rise in provisional retail sales of 2.1 per cent, leading analysts to expect a slight downwards revision in the final figure.

Other events and statistics (with consensus figures from MMS international, the financial research company, in brackets) include:

Tuesday: France, industrial production figures for the third quarter. West Germany, unemployment and employment figures, December.

Wednesday: US, consumer credit, December. ($3bn). 10-year Treasury note auction. UK, family expenditure figures.

Thursday: UK, Bank of England Quarterly Bulletin. US, jobless claims.

Friday: US, producer prices for January.

INTERNATIONAL BANK LENDING

Troubled times for property financing

TRYING TO structure a UK property financing in these uncertain times can be a tough proposition. Not only are banks shrinking from leveraged buy-outs on both sides of the Atlantic, but high UK interest rates are making some of them chary about increasing their exposure to property in London.

Citicorp will find out just how chary as it syndicates loans which are financing the £258m takeover last August by JMB Realty, the big Chicago-based real estate concern, of Randsworth Trust, the UK property investment company.

JMB Realty originally took a bridging loan from Citicorp to finance the deal and repaid it in December.

In its place, Citicorp provided a senior loan facility, which has already been drawn on, while JMB retained itself and placed with other institutions a total of £95m in equity in Randsworth and a further £95m of unsecured subordinated notes.

The secured revolving credit facility, with a final maturity of December 1996, is of a maximum £260m and is divided into two parts. The first element consists of £130m in senior debt secured on properties where there is a maximum ratio of loans to value of 60 per cent. The second tranche is split into two, part of which carries a 60 per cent loans-to-value ratio and the rest a 75 per cent ratio.

Loans in either tranche with a 60 per cent loans-to-value ratio carry an interest rate above London interbank offered rates of ½ percentage point. Those with the 75 per cent ratio carry an interest margin of 1¼ points.

The properties, which are mostly in the west end of London including, for example, the Derry and Toms building in Kensington, will be revalued annually, although either the borrower or lender can insist on valuations at other times.

The loans-to-value ratios will limit the borrowing under the facility initially to about £200m. If the valuations increase, the borrowing will be able to expand. If they fall then the borrowings will shrink. A commitment fee of ¼ per cent is payable whether the loans are available or not. In the second tranche, about 65 per cent of the loans would currently fall within the 75 per cent ratio, but not within the 60 per cent ratio.

About 80 per cent of the properties in the portfolio are being held for investment, the remainder being mixed between development properties and for trading. Banks invited into the transaction can participate in one or both elements.

Citicorp is hoping that the name of the sponsor, JMB Realty, the relatively conservative loans-to-value ratios and the fact that the west end of London has been fairly well insulated from the difficulties becoming apparent further east, will ensure the deal meets a positive response.

In the latest of a series of deals, National Westminster Bank is raising funds for a US company, this time the Dallas-based housebuilding concern Centex Corporation. The £100m revolving credit carries a three-year maturity, but other terms have not yet been disclosed.

A £150m facility for Meyer International was increased last week to £180m after subscriptions of £216m in syndication.

Signed was a DM750m facility for Hoesch of Dortmund, with a syndicate of 38 European banks led by Deutsche Bank Luxembourg.

Yamaichi International has arranged a $50m Eurocommercial paper programme for NMP International Finance (Netherlands), a wholly-owned subsidiary of Nippon Meat Packers.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	1,220.1	100.0	430.0	10,865.1
Prev	1,650.0	0.0	32.5	12,995.0
Other	2,343.1	258.4	167.8	5,277.5
Prev	1,533.7	0.0	189.4	3,002.6

Secondary Market

US$	17,497.0	1,151.9	5,164.6	7,309.7
Prev	13,691.6	938.7	4,463.4	7,187.8
Other	20,012.0	1,505.6	4,226.9	43,446.3
Prev	21,731.5	999.3	4,464.5	41,007.6

	Cedel	Euroclear	Total
US$	12,893.7	30,844.7	43,738.4
Prev	11,340.5	29,615.5	40,956.0
Other	29,345.8	46,892.0	76,237.8
Prev	27,975.6	44,833.0	72,808.6

Week to February 1, 1990 Source: AIBD

INTERNATIONAL BONDS

Italian bond issues are no longer just a family affair

IN James Buchan's novel, Davy Chadwick, the protagonist's father makes his money in Italian Bots which he describes jokingly as, "a Treasury bill, issued in profusion by a spendthrift state, and carrying a very high yield."

The Italian government bond market has been seen as a joke by foreign investors, with most issues bought by families and held until maturity. However, there are signs of the world's third largest government debt market – after the US and Japan – becoming more accessible to funds from abroad.

A striking sign of a growing foreign interest in Italy is the huge flow of cash into Eurolira bonds in the past year. A L125bn issue of bonds for Exxon Capital Corp on Thursday was the latest in a rush of strong corporate names to tap the market, where new-issue activity rose about four times last year to 30 new issues.

As Eurolira market liquidity deepens, it attracts more foreign investors, particularly retail customers. Indeed, the queue to issue new bonds, which is imposed by the Bank of Italy, is already full until March, with Eurofina expected to be the next big issuer.

The return of fiscal discipline to the Italian Treasury has sparked a growing interest in the bond markets. The entry of the lira into the narrower 2.25 per cent band of the European Monetary System at the beginning of the year holds the Italian Government to stricter monetary targets.

Furthermore, Italy has been tidying up the technical side of its public sector debt market in the past few years, which will help make it more accessible to foreigners. The secondary market for bonds is now, for example, operating on an entirely automated trading and settlement system with 20 primary dealers obliged to make a market in seven issues.

Foreign investors are faced with a plethora of issues in the Italian bond market as, in the past, the Treasury churns out a huge variety of mainly short-term instruments – many of which are floating-rate notes. The average maturity of Italian debt is 2½ years in a market which has $600bn of debt outstanding.

However, in the last two years the Government has turned towards issuing fixed income bonds with longer maturities.

A current benchmark is the new BTP bond, issued this year and which matures in 1994 with a yield of more than 12 per cent – offering a real interest rate of about 6 per cent. The Government is looking to issue bonds with longer maturities when the market allows.

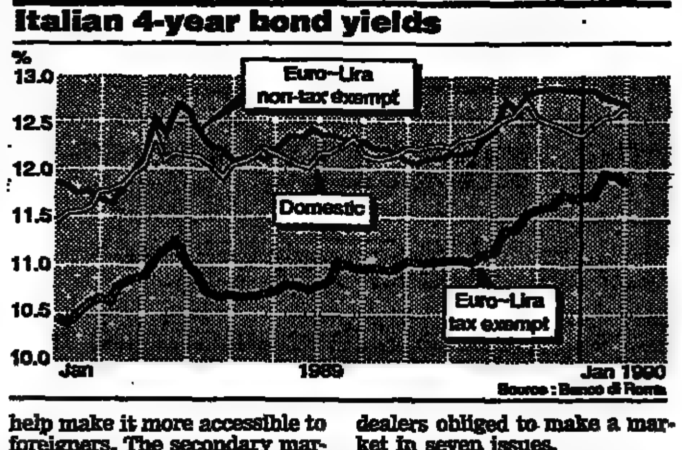
Italy's shorter-term instruments – 3–month, 6–month and 9–month Treasury bills – will probably be of little interest to overseas investors who would be advised to put their cash into money market instruments.

For investors willing to take the plunge, the Italian fixed-rate bond market offers real opportunities. Some brokerage firms compare it with the level of development of the French market in 1984, before the Government began a series of bond market reforms.

The Italian Government is extending its bond market liberalisation to the Eurolira sector as well as the government market. The development of the Eurolira's full potential is hampered at present by the inability of companies resident in Italy to issue bonds and the unattractiveness of the bonds to Italian resident investors.

Deborah Hargreaves

Italian 4-year bond yields



Source: Banco di Roma

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Maruzen Co.‡◆	200	1994	4	2¼	100	Nikko Secs.(Europe)	2.250
Skopbank(y)◆	27.5	1991	1	19	101⅛	Nomura Int.	17.676
Sanwa Shutter Corp.‡	400	1994	4	(2⅝)	100	Daiwa Europe	★
Mitsui Toatsu Chemicals‡	300	1998	8	(4)	100	Salomon Brothers	★
Mitsui Toatsu Chemicals‡	300	1994	4	(2⅝)	100	Nomura Int.	★
Honda Motor Co.◆	300	1997	7	9⅝	101⅜	Nomura Int.	9.274
Godo Steel‡	150	1994	4	(2¼)	100	Yamaichi Int(Europe)	★
Daihen Corp.‡	100	1994	4	(2¾)	100	Nomura Int.	★
Gold Mns K'goorlie(j)§◆	65	2000	10	7½	100	Morgan Stanley	7.500
Nissan Shatai Co.‡	150	1994	4	(2¼)	100	Daiwa Europe	★
Daishinpan Co.‡	100	1994	4	(2¾)	100	New Japan Secs.	★
Suntory Netherlands◆	43	1992	2	9	101⅛	Mitsui Fin. Int.	8.366
Nichimen Europe◆	25	1993	3.7	9⅞	101⅝	IBJ Int.	9.814
Shikibo Ltd.‡	100	1994	4	(2¼)	100	Nomura Int.	★
Mitsubishi Bk Aus.(q)◆	65	2000	10	(q)	102	Mitsubishi Fin.Int.	-
Hyundai Motor Co.(x)‡	70	1995	5	(1-1¼)	100	CSFB	★
ELM International◆	85	1992	2½	13½	95.49336	Bear, Stearns	16.370
D-MARKS							
SE-Banken(a)‡◆	400	1995	5	(a)	100⅛	CSFB Effectenbank	-
Kredietbank Int.Fin.(g)◆	100	1992	2	10	101½	Bankverein Bremen	9.146
Daishinpan Co.‡	100	1994	4	(1⅝)	100	Deutsche Bank	★
Ihara Chemical Ind.‡	40	1994	4	(1⅝)	100	Daiwa Europe(Germany)	★
Sonelgaz(Algeria)◆	180	1995	5	9½	100	BHF-Bank	9.500
Z-Bank of Vienna(p)◆	40	1993	3	9¼	101	Bk of Tokyo(Germany)	8.856
Yamazen Co.‡	65	1994	4	(1⅝)	100	Deutsche Bank	★
Union Bk of Finland♥‡◆	300	2000	10	♥	100⅛	Commerzbank	-
Lavoro Bank O'seas"‡◆	300	1995	5	"	100.15	Morgan Stanley	-
SWISS FRANCS							
Yaohan Dept.Store(t)☆☆§◆	100	1994	-	Zero	100	Swiss Volksbank	-
Autobacs Seven Co(l)☆☆§◆	90	1994	-	Zero	100	Nomura Bk (Switz)	-
Control Secs.Finance◆	100	1997	-	8⅞	100	S.G. Warburg Soditic	8.875
North Pacific Bank(b)☆☆§	100	1994	-	¼	100	UBS	0.250
Kinseki Ltd.(c)☆☆§◆	100	1995	-	Zero	100	SBC	-
Dai-Ichi Hotel☆☆‡	100	1995	-	1½	100	Swiss Volksbank	1.500
Nichiban Co.(d)☆☆§	80	1994	-	Zero	100	Credit Suisse	-
Jidosha Denki K.(e)☆☆§	80	1995	-	Zero	100	Bank Julius Baer	-
Carter Holt Harvey Fin§	(f)	1995	-	(7)	100	S.G. Warburg Soditic	★
LKB Baden W'berg☆☆◆	50	1995	-	7⅛	100¾	SBC	7.191
Credit Agricole☆☆◆	50	1995	-	7½	101	SBC	7.254
Nippon Filcon Co.(m)☆☆§	50	1994	-	Zero	100	Daiwa (Switzerland)	★
Hirano Tecseed(n)☆☆§	25	1994	-	Zero	100	Nomura Bk (Switz)	★
Credit Local☆☆◆	100	1995	-	7⅜	101	Credit Suisse	7.130
Shoei Foods(r)☆☆§	70	1994	-	¼	100	Nomura Bk (Switz)	0.250
Shikibo Ltd.(s)☆☆§	50	1994	-	Zero	100	Swiss Volksbank	-
Sugimura Warehouse(z)☆☆§	45	1994	-	Zero	100	Nomura Bk (Switz)	-
Sogo Denki◆☆☆§	70	1994	-	¼	100	Handelsbank NatWest	0.250
STERLING							
British Gas◆	150	1995	5	12¾	101⅜	Baring Brothers	12.386
Leeds Permanent(h)‡◆	250	1997	7	10bp	100	Deutsche Bk Cap.Mkts	-
PHH Funding No.1(i)‡◆	50	1995	3½	(i)	100	Commerzbank	-
Nationwide Anglia(o)‡◆	150	1993	3	1/16	100	CSFB	-
GUILDERS							
World Bank◆	300	1997	7	8⅜	101.15	ABN	8.153
LIRE							
Exxon Capital Corp.◆	125bn	1993	3	12⅞	101.30	Banco di Napoli	12.331
LUXEMBOURG FRANCS							
Sparekassen SDS☆☆◆	600	1993	3	10⅜	101⅝	C.d'Epargne de l'Etat	9.725
Copenhagen Handelsbk☆☆◆	800	1993	3	10⅜	101⅝	BGL	9.725
Gotabanken☆☆◆	300	1993	3	10½	101⅝	Kansallis Int.	9.848
Merrill Lynch & Co.☆☆◆	600	1994	4	10½	101¾	Cr.Europeen/Bqe UCL	9.949
D'Ieteren Trading☆☆◆	300	1995	5	10¼	101½	BGL	9.886
FINNISH MARKKA							
Okobank Group(u)◆	1.6bn	1993/95	3/5	13	100	Okobank	13.000
Postipankki◆	400	1993	3	13	100¾	Postipankki	12.684
YEN							
IMI Bank Int.(w)‡◆	10bn	1995	5	-45bp	100½	Mitsubishi Fin.Int.	-
Skopbank◆	8bn	1995	5	7⅛	101⅞	Mitsubishi Fin.Int.	6.672
Societe Generale◆	8bn	1995	5¼	7	101⅞	Fuji Int.	6.557
Bayerische Vereinsbank◆	10bn	1995	5¼	7.1	101⅞	Merrill Lynch	6.658
Skopbank◆	12bn	1993	3	7.2	101⅜	IBJ Int.	6.679
Nippon Oil Finance(k)☆☆◆	10bn	1994	4	8	101⅝	Daiwa Europe	7.516
Suntory N'lands(k)☆☆◆	10bn	1994	4	12	101⅝	Daiwa Europe	11.471
Council of Europe◆	25bn	1994	4¼	7	101½	Daiwa Europe	6.572
Citicorp◆	15bn	1995	5¼	7	101¾	Daiwa Europe	6.585
Union Bank of Finland◆	7bn	1993	3	7.2	101⅜	Sumitomo Trust Int.	6.679
Kredietbank Int.(k)◆	8bn	1991	1	13½	101⅛	New Japan Secs.	12.237
Swedbank(k)(v)◆	5bn	1991	1¼	7¼	101⅛	Toyo Trust Int.	6.741
Swedbank(k)(v)◆	2bn	1992	2.2	7⅝	101⅛	Toyo Trust Int.	7.034
Cariplo◆	11bn	1995	5	7	101⅝	Nomura Int.	6.608

★Not yet priced. ☆☆Private placement. ‡With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Coupon pays 3-month Libor flat. Call at par after 2 years and on coupon dates thereafter. b) Yield to put 3½%. c) Yield to put 3.532%. d) Yield to put 3.519%. e) Yield to put 3.898%. f) Amount will depend on exchange offer. Three new bonds may be bought for two old bonds plus SFr5,000 in cash less accrued interest on two old bonds. Investors can also pay cash. g) Redemption linked to SFr exchange rate. h) 10bp over 3-month Libor. i) 50bp over 1-month Libor first four years, then 100bp over for next six months and 150bp over thereafter. Expected average life 3½ years. j) Conversion price A$1.37. Exchange rate: 0.7702. k) Redemption linked to Nikkei stock index. l) Yield to put 3.229%. m) Yield to put 3.249%. n) Yield to put 3.479%. o) 1/16 over 3-month Libor. p) Redemption linked to bund future contract. q) Coupon pays 30bp over 6-month Libor first 2 years, then 10¼% remainder. r) Yield to put 3.320%. s) Yield to put 3.436%. t) Yield to put 3.234%. u) Launched in two tranches: FM960m for 3 years and FM620m for 5 years. v) Bull notes. w) Coupon pays 45bp under Japanese LTPR semi-annual. x) Indicated premium 100-115%. y) Oil-linked notes. z) Yield to put 3.462%. ◆Yield to put 3.243%. ♥Coupon pays 3-month Libor flat. Call and put after 5 years at 100 and on coupon dates thereafter. "1/16 over 6-month Libor. Call after 2 years at 100 and on coupon dates thereafter. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Mexican group issues fixed-rate Eurobond

By Stephen Fidler, Euromarket Correspondent

MEXICO'S largest cigarette manufacturer, the Monterey-based Empresas La Moderna, has issued a fixed-rate Eurobond, one of the few fixed-rate issues to be issued by a Mexican private sector company since the country hit foreign debt problems in 1982.

The issue, a $65m issue with a 2½-year maturity, carries a 13½ per cent coupon and a 95.49336 issue price to yield 16.37 per cent. The proceeds will be used to refinance the company's repurchase last November of 45 per cent of its shares owned by Westminster Tobacco, a subsidiary of BAT of the UK.

Bear Stearns, La Moderna's financial adviser, also acted as a placement agent for the notes, which it said had been placed not only with Mexican investors but with investors in Europe. There was some interest from disaffected junk-bond investors, officials said.

The last such issue for a Mexican company was a $150m deal last October for Sun Belt Enterprises.

● A new West German federal government bond issue, which overshadowed the bund market for much of last week, received an enthusiastic reception on Friday, when the 10-year issue was launched with a 7¾ coupon and priced at par.

There had been fears the price could be as high as 100.50.

However, other recent medium-term bunds fell by about 20 pfennigs in Friday's trading, partly due to switching to the new issue.

● The Hong Kong arm of China International Trust and Investment (Citic) has denied speculation that it did not have its Peking parent's approval to buy a 20 per cent stake in Hongkong Telecommunications from Cable & Wireless of the UK, Reuter reports.

Mr Larry Yung, managing director of the Hong Kong unit, said: "We have been negotiating with C&W for about one year. It's an investment of more than HK$10bn; how can we make it without the consent of the authorities concerned?"

Nippon Life to acquire 4% stake in Spain's BBV

By Peter Bruce in Madrid

NIPPON LIFE, the world's largest insurance company, is to take a stake of nearly 4 per cent in Banco Bilbao Vizcaya (BBV), Spain's largest commercial bank, to become the second big Japanese financial institution to agree in the last eight months to buy into a big Spanish bank.

Last July Nomura, the securities house, spent $93.5m buying a 1.5 per cent share in Banco Santander and 10 per cent of Santander's investment bank, Banco Santander de Negocios. Nippon Life will reportedly pay more than $250m for its investment in BBV.

BBV owns two of Spain's biggest domestic insurance companies, Euroseguros and Plus Ultra, but it is unclear whether they will collaborate with Nippon Life in the small but growing Spanish insurance market. However BBV will help build an investment portfolio for Nippon Life in Spain.

The prospective Japanese partner is, in turn, sponsoring BBV's efforts to be quoted on the Tokyo stock exchange, and a flotation of BBV shares in Japan is likely later this year. Banco Santander, which this weekend revealed it had become Spain's second-largest bank with assets totalling Pta4,500bn ($41bn), began quoting in Tokyo last month.

Spanish banks have had some difficulty getting on to the Tokyo bourse because of a succession of banking scandals in Spain. Nippon Life's agreement to buy into BBV is all the more remarkable as it comes just after a searing boardroom dispute at BBV over a new president.

Although this row had little effect on BBV's 1989 results, figures published late last week suggest the bank – resulting from a 1988 merger of Banco de Bilbao and Banco de Vizcaya – is having trouble finding its feet. The 15.5 per cent increase in consolidated group pre-tax profits for 1989, to Pta141bn, is the lowest of the four big banks that have reported so far.

At the weekend Banco Espanol de Credito (Banesto) reported a 20.37 per cent gain before tax to Pta48bn for the bank alone, but has yet to publish consolidated data. Provisions and amortisations were Pta49.52bn against Pta71.75bn in 1988.

Banco Popular, the smallest of Spain's "big seven" commercial banks, lifted consolidated pre-tax profits by 20 per cent to Pta57bn and Santander, boosted by its acquisitions abroad, has reported a 28 per cent rise in consolidated pre-tax profit to Pta81.2bn.

Swiss engineers see profit rise

By John Wicks in Zurich

TWO Swiss engineering companies, Sulzer Brothers and Georg Fischer, expect to report substantial rises in earnings for 1989, while a third, Saurer Group, has expressed optimism for 1990.

Sulzer forecasts a "substantial" increase in group earnings in the past year. In 1988 consolidated net profits rose 3 per cent to SFr79m ($52.6m), permitting payment of an unchanged parent-company dividend of SFr110 per share.

New-order volume increased by 20 per cent to SFr6.7bn.

Business is said to have been good in medical technology, plant and building services, paper machinery, pumps and thermal turbo-machinery.

For the current year Sulzer plans an 18 per cent increase in investment and research spending to SFr295m and SFr252m respectively.

Apart from projects in Switzerland, a major expansion venture will involve the Sulzermedica (formerly Intermedics) subsidiary in the US.

Georg Fischer expects a "marked rise" in group earnings for the past year. This would follow an increase of 42 per cent in consolidated profits to SFr50m in 1988.

The Schaffhausen-based company says group sales advanced 12 per cent in 1989 to SFr2.5bn. Sales volumes were up for all four divisions – foundries, piping systems, manufacturing technology and plant engineering. – apart from a positive influence from the strengthening of foreign currencies. Orders rose 15 per cent last year.

Saurer, which has gone through radical restructuring in connection with the divestment of its loss-making commercial-vehicle operations, now expects a further "considerable" growth in both sales and earnings for 1990.

An important contribution will come from the takeover of the Denver-based company Melco Industries, a leading US maker of embroidery machines.

Most of the group's 1989 expansion came from its operations in the field of textile machinery, surface metallurgy and plastics technology. It is building up activities in computer telecommunications and zip-fastener technology.

New chief for troubled Campeau stores

MR Allen Questrom, chief executive of the Neiman Marcus department store chain, is the new head of Federated Department Stores and Allied Stores, the two US retailers owned by Campeau Corp and now operating under Chapter 11 of the US Bankruptcy Code, Reuter reports.

Mr Questrom, who only a week ago denied his interest in the post, will assume his new position immediately. He will join Mr James Zimmerman, president and chief operating officer of Federated and Allied, in forming the top management team of the $7.5bn Federated Stores (FSI) department store group.

Accor buys 10% of HK hotel company

By John Elliott in Hong Kong

ACCOR, the French hotels group, has acquired a stake of about 10 per cent in Mandarin Oriental International, the Hong Kong-based luxury hotel company which is part of Jardine Matheson group.

It bought the shares on the open market for about HK$370m (US$47.4m) and is looking for ways for its Sofitel, Novotel and other hotel companies to co-operate with Mandarin.

"We do not intend to try to take over Mandarin," Mr Philippe Lamy, Accor's Hong Kong-based Asia development director, said yesterday. "Mandarin has strong assets and it is a good investment. But maybe there are things we could do together because Mandarin has wanted to expand into Europe and we are expanding in Asia."

Along with other leading companies in the Jardine Group, which is controlled by the London-based Keswick family, Mandarin is incorporated in Bermuda. There have been rumours that it might be sold by Jardine, which has a 48 per cent stake through Jardine Strategic.

Jardine said yesterday it was one of the group's core businesses and was not for sale. There had been no co-operation talks with Accor.

The flagship hotel is Hong Kong's Mandarin Oriental which has been hit by a 4 per cent drop in the colony's tourist arrivals last year.

Mandarin has failed in the past to clinch ambitious plans for international expansion beyond its other hotels in Macao, Bangkok, Manila, Jakarta and Singapore. Now it is focusing on Asia and six months ago it announced new plans for hotels in Kuala Lumpur and New Delhi. Interim profits after tax for the first half of last year totalled HK$190.4m, 31 per cent up on the same period in 1988.

Accor's international expansion plans outside Europe are concentrated in Asia. Mr Lamy said it planned to have 36 Asia hotels open by 1992, most involving equity stakes, compared with 12 now.

Michelin reviews spending as motor industry slows

By George Graham in Paris

MICHELIN, the world's leading tyre manufacturer, is planning an across-the-board review of its investment plans in the face of expected weak demand for its products.

The French company said the tyre market was facing a spell of low sales, with the car industry slowing down from the second half of last year in the US and poor prospects in Europe.

Michelin had decided to maintain its stocks in 1990 at the same level as last year, and would put off all non-essential investment plans, as well as paying particular attention to cost control.

The company, heavily indebted since its $1.5bn takeover of Uniroyal Goodrich last September, still expected results for 1989 to be around the same level as 1988's FFr2.37bn ($415m).

Mr Thierry Huon, analyst with Patrick du Bouzet, the Paris stockbroker, said he expected earnings to be much the same as last year, excluding exceptional profits. He added that Michelin would be less affected than its rivals by the downturn in the car market because of its strong position in the replacement tyre market.

Based in Clermont-Ferrand in central France, Michelin has controlled an estimated 21.5 per cent of the world tyre market since the acquisition of Uniroyal Goodrich, the second largest US tyremaker.

Its position in the market is ahead of Goodyear and Bridgestone/Firestone, with about 17 per cent each.

Michelin has increased its sales of tyres for original fitting to General Motors, at the expense of Firestone, now controlled by Bridgestone, the Japanese company. This meant it was, on occasion, short of tyres for the more profitable replacement market, so a downturn at GM and other carmakers would leave Michelin with room to switch sales to replacement outlets.

Raider alters Lockheed tactic

By Roderick Oram in New York

MR Harold Simmons, the Dallas corporate raider, has said in a regulatory filing he might try to win control of the board of Lockheed, the US military aerospace group he has been stalking for more than a year.

He had said previously he was only accumulating stock as an investment. He and companies he controls recently increased their stake to 18.94 per cent from 17.9 per cent.

His change of tactics came after Lockheed turned down his request to name six of the company's 15 directors and for the disarming of the company's poison pill anti-takeover defence. The rejection came in a meeting Mr Simmons had last Wednesday with Mr Dan Tellep, Lockheed's chairman, and Mr Vincent Marafino, vice chairman.

Mr Tellep said in a statement on Friday: "Mr Simmons offered no plans or proposals other than his requests concerning board representation and the shareholders' rights plan." Lockheed was unable to determine Mr Simmons' broader intentions, he added.

Wall Street has the same problem. Mr Simmons has pulled off some notable victories in his career as a corporate raider. His style is the long game which leaves arbitrageurs and investors confused.

Only last week, for example, he launched a bid for Georgia Gulf. However, he might only be trying to force the chemical company to improve the terms of the onerous recapitalisation it had proposed to evade him.

Analysts think Mr Simmons might be playing the same game with Lockheed.

They think he is showing a loss on his share stake so he might be trying to force Lockheed into an action, such as a share buy-back, to drive up the stock price to the point where he can unload at a profit.

Pathe Communications sells cinemas

By Alan Friedman in New York

PATHE Communications, the Hollywood film company that took over the assets of now-defunct Cannon films, has sold 41 cinemas in the UK and the Netherlands to a Dutch investment vehicle owned by Fininvest, the master company of Mr Silvio Berlusconi, the controversial Italian commercial television tycoon.

Pathe, which is controlled by Mr Giancarlo Parretti, an Italian financier, is to receive $233m for 21 cinemas in Britain, out of a total of 149 owned there, and 20 in Holland. Mr Parretti and Mr Florio Fiorini, a Geneva-based Italian financier, jointly and indirectly control 88.5 per cent of Pathe.

The theatres are to be leased back to Pathe so Mr Parretti's company will continue to receive benefits from the operations. Proceeds will be used for expansion.

Pathe, which is quoted on the New York Stock Exchange, suffered a $55m loss in the first nine months of 1989 on revenues of $276m. In 1988 the group, then known as Cannon, lost $21m on sales of $371m.

Mr Parretti has faced controversy in the past; the French Government only recently dropped efforts to prevent him from taking control of Pathe Cinema assets based in Paris and related legal proceedings in the Netherlands are still under way.

Aside from the Hollywood production business, Mr Parretti's group also controls Odeon Television, a private Italian network.

US MONEY AND CREDIT

Gorby rally halts six-week decline

IT TOOK another Gorby rally, but the US Treasury bond market has finally managed its first "up" week of the decade after six weeks of remorseless decline under pressure of domestic and foreign factors.

A US television report from Moscow that President Mikhail Gorbachev was about to resign as head of the Communist Party sparked a rally of the dollar last Tuesday which pulled US long bonds along with it.

Mr Gorbachev swiftly dismissed the report as a scandalous rumour and the dollar retreated, but bonds hung on to some of their gains.

In spite of further buffeting later in the week in response to US economic news, long bonds finished the week fractionally ahead.

This minor accomplishment, due more to short covering than renewed investor interest in bonds, repaired next-to-none of the damage done to the market by inflation worries at home and rising interest rates abroad.

From the turn of the year to just before the Gorby rally, the price of the benchmark 30-year Treasury bond had declined nearly seven points with its yield rising some 65 basis points to 8.61 per cent.

Worse is the feeling among investors and traders that nothing in the latest crop of economic data or comments from Federal Reserve officials indicates the market can rally on economic fundamentals in the near term.

Mr Alan Greenspan, the Fed chairman, told Congress last week that chances of a US recession had diminished sharply since last spring.

One Fed measure indicated that the risk had dropped to 30 per cent, another to 10 per cent.

Thus the economy's sluggish performance in the fourth quarter of last year was a "temporary hesitation in the continuing economic expansion."

Cautious economist that Mr Greenspan is, he added though that he "would not bet the ranch" on these assertions about growth.

He once again said he was worried about current inflation levels.

With these comments in mind, the market did not take too well to the purchasing managers' survey for January, released on Thursday.

Their composite index dropped to 45.2 per cent from a revised 46.7 per cent in December – the original figure was 48 per cent.

With an index figure lower than 50 per cent indicating slowing growth, bonds might have attracted some buying on hopes of a fall in interest rate.

But these were nipped in the bud by a jump in the purchasing managers' price measure, reinforcing inflation fears.

The week ended on a confused economic note when the market learned on Friday that 275,000 jobs were created in January, some 50 per cent more than forecast.

On balance, job creation appears to be trundling along at a moderate pace.

December's growth was revised down to 96,000 from 142,000 and the January figure was distorted by a whole host of seasonal factors.

Warmer weather, for example, accounted for a 104,000 jump in construction jobs after a 50,000 decline in December.

The market faces three main events this week – a meeting of the Federal Reserve's policy-setting open-market committee, the Treasury refunding and an horrendously big jump in the producer price index.

The first should spring no surprises, the second will be dogged by uncertainties and the third should be dismissed as an aberration.

Not to be outdone by Mr Greenspan's extensive comments to Congress, most of the other Fed governors have been busy speaking their minds of late.

Thus the markets are in no doubt that the FOMC, more concerned about inflation than recession, is highly unlikely to ease monetary policy at its two-day meeting starting tomorrow.

Fed funds, a key to other interest rates, will stick at 8.25 per cent.

But this is the FOMC's most important meeting of the year. In addition to its review of monetary policy, it will assess the two-year forecasts of the central bank's staff and set long-term monetary and credit targets.

"This year, all the drama of the meeting has been removed," Mr Brian Fabbri, chief economist of Midland Montagu, says.

In contrast to previous Fed boards, this one has become quite vocal for good reason.

"Public statements by Fed officials remove the uncertainty surrounding Fed decisions and help forge market psychology.

"They also defuse Congressional attempts to legislate more public disclosure. As a result the financial markets have already concluded that the chances of a change in monetary policy at this meeting are very small.

"Therefore, too, the Treasury's quarterly refunding can be auctioned in a more static monetary environment."

As for this year's monetary targets, little change from last year's is expected.

The Fed set a 1989 growth range of 3 to 7 per cent for M2 and 3.5 to 7.5 per cent for M3. It is likely to reaffirm them or reduce one or both only half a percentage point.

The Treasury auctions begin tomorrow with the sale of $10bn of three-year notes, followed by a like value of 10-year notes on Wednesday and 30-year bonds on Thursday.

Given the back up in interest rates over the past six weeks, domestic investors should bid quite enthusiastically for the three-year notes.

But the going could get a lot tougher for the second and third auctions if foreign – i.e. Japanese – buyers fail to show up in strength.

"The yield spread is quite narrow versus Japan and neither the bond market itself nor the dollar offer super capital appreciation prospects as an offset," says Mr Robert Brusca, chief economist in the US for Nikko Securities.

"I see near-term risk, long-term value. The Japanese fiscal year ends in March – it may be too close at hand for too large a bet to be made on the long term."

No sooner will the market have slogged through the long bond auction on Thursday than it must cope with an arresting inflation figure on Friday.

The producer price index jumped 1.2 per cent in January, many economists forecast, its biggest one-month gain in nine years.

Bad weather over the turn of the year wreaked havoc on several components.

Energy prices were probably up about 10 per cent and food prices about 1.5 per cent. Excluding such items, the core increase might have been more like 0.25 per cent.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.19	8.19	8.25	9.92	8.08
Three-month Treasury bills	8.05	7.92	7.82	9.11	7.26
Six-month Treasury Bills	8.15	8.03	7.99	9.37	7.18
Three-month prime CDs	8.25	8.20	8.10	10.35	[illegible]
30-day Commercial Paper	8.22	8.20	8.65	9.95	8.05
90-day Commercial Paper	8.10	8.10	8.30	10.05	8.15

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	97¾	−⅛	8.45	8.42	7.96
20-year Treasury	104¾	+⅛	8.58	8.62	8.08
30-year Treasury	95¾	+⅛	8.50	8.51	7.97

Money supply: In the week ended January 22 M1 rose $2.9bn to $794.1bn.

NRI TOKYO BOND INDEX

December 1983 = 100	1/2/90	PERFORMANCE INDEX Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	144.29	6.77	141.02	147.63	149.82
Government Bonds	143.03	6.55	142.79	147.46	150.27
Municipal Bonds	146.14	6.81	145.43	148.90	151.37
Govt.-guaranteed Bonds	147.95	6.87	147.40	150.14	152.34
Bank Debentures	140.31	7.00	140.21	142.15	143.48
Corporate Bonds	146.49	6.97	146.33	150.65	151.72
Yen-denom. Foreign Bonds	151.90	7.28	151.70	156.46	158.73
Government 10-year†	6.13	–	6.14	5.43	4.98

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Unsettled times likely to continue

THE GILTS market, which spends much time searching for storm clouds, could be battening down the hatches in just under two week's time.

On February 15 the Treasury is to announce the public sector debt repayment in January – a figure that looks likely to be low enough for the forecasters to revise downwards, yet again, their estimates for the final PSDR for 1989-90.

Anxiety was manifest throughout the week. Gilts lost half a point in response to some inflationary news from a bleak CBI industrial trends survey on Tuesday. Rumours of Japanese selling also persisted, and the benchmark Treasury 2003/07 gilt 11¾ closed on a high yield of 10.86 per cent.

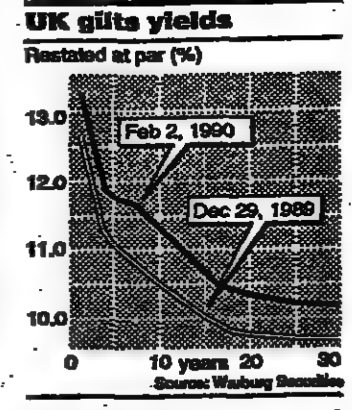
The market chose to ignore Tuesday's impenetrable public expenditure White Paper and listened instead to Mr Alan Greenspan's comments about the US economy. As a result gilts had an erratic week as they pursued US Treasuries.

This unsettled state of affairs is likely to continue at least until the figure for the January PSDR makes clearer the likely state of the gilts market in 1990-91.

The January PSDR could show a marked drop on that for last year, which was £6.8bn. This is because the Exchequer did not reap its usual tax harvest in January, the month when companies traditionally pay their corporation tax.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Many paid instead in the third quarter of last year.

Exchequer transaction flows – together with the admission from Mr John Major, the UK Chancellor, of a smaller PSDR this time round – are giving preliminary evidence that tax receipts have been unexpectedly and exceptionally low.

The erosion of the January surplus might be made more severe by heavier-than-usual public spending by the local authorities and public corporations. Economists' forecasts depend on their monitoring of Exchequer flows in the money markets and assumptions about the other elements of public spending.

The worst scenario comes from Warburg Securities. It thinks the January PSDR will fall to £4.5bn, resulting in a final year outturn of £7bn or possibly less. This refinement of work done a week ago has since been partially endorsed by other analysts.

With a £7bn PSDR there is a strong possibility the Bank of England could become an issuer of gilts again. This is because the number of gilts bought in 1989/90 could be far greater than the PSDR and the surplus would be underfunded. The Bank started 1989/90 thinking the surplus would be £14bn; this was cut to £12.5bn in the Autumn Statement and now it will even undershoot that forecast.

This scenario, economists are saying, has not reached the market's ears. Talk of a tap issue – possibly to be announced in the Budget – could cause some surprise and anxiety. With the Bank's gilt buy-in programme at an end, prices may fall and long gilt yields could nudge 11 per cent or higher.

This could have a profound psychological effect on the market. Mr Chris Anthony, of UBS Phillips & Drew, describes the Bank's presence as a "prop" the market will lose if the PSDR shrinks as fast as economists are predicting.

He says the Bank as buyer encouraged investors to believe prices were protected from the worst effects of the deteriorating economic and political background. When the authorities fully-funded, there was little risk premium. Changes in funding policy, coupled with the end of the buy-in programme, have re-introduced the risk premium, driving up yields to more "appropriate" levels.

Before the January PSDR is published it is premature to speculate much further. Not all economists are doomsayers. Some say the authorities will happily sit on an underfund of £3bn or so. Although it would entail a loosening in monetary conditions, the 1990/91 Budget surplus might allow it to be absorbed in the coming year.

Mr Stephen Hannah, of NatWest Gilts, points out that an underfund of £3bn would sit quite nicely with the overfund of £2.2bn carried over between 1986 and 1989. "They will wipe each other out," he says. Why issue gilts, he adds, if it looks likely the PSDR in 1990-91 will grow to £9bn again?

A further consideration must be funding policy. The Treasury is committed to full-unfunding of the Budget surplus or deficit in principle. In practice, it has decided it can leave sterilising foreign exchange intervention for another year.

The political impact of gilt issuance should be weighed up before traders sell off stock in a knee-jerk reaction to a smaller January PSDR. It might look as if the Government had lost control of the economy if it issued gilts and increased debt near to a general election.

Rachel Johnson

FT/AIBD INTERNATIONAL BOND SERVICE

BOND WARRANTS	Expiry Date	Bid price	Chg on week	Yield
CHRYSLER FIN 10¾ 94	02/03/94	30	+5	9.44
CREDIT FONCIER 10¼ 98	07/03/93	170	0	9.80
GMAC 8¾ 95 B	11/02/91	12	+2	8.44
HEINZ H.J. 7½ 96	01/10/90	3	0	7.43
NORDIC INV BANK 10 96	27/03/96	45	+3	9.00
S.A.S. 9¾ 03	03/06/91	40	+5	8.72

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on FEBRUARY 02

UK COMPANY NEWS

Pulling out the stops to mount a defence

Nikki Tait on the workings of the BAT team in its efforts to fight off Hoylake

A RARE insight into the workings of a high-powered bid defence team are revealed in documents filed by BAT Industries, the tobacco-based conglomerate which has been under bid threat from Sir James Goldsmith's Hoylake consortium, with the Illinois insurance department.

The documents have come to light as a result of the "leaked memorandum", concerning a meeting of BAT and its advisers on November 14. The note, stolen from one of BAT's advisers offices and sent to Hoylake, set out various possible courses of defensive action – ranging from acquiring a clearing bank to "greenmailing" Hoylake.

When Hoylake publicised the memo 10 days later, BAT brushed off the notions as an "advisers' brain-storming session", and said that no further action was planned.

But Axa-Midi Assurances – which has been lined up as the buyer of Farmers Group – has been permitted to request a mass of supplementary documents and to depose certain BAT executives and advisers. The resulting impression is very different. Not only were some ideas pursued into December at least, but other avenues – not even mentioned in the November 14 memo – were also investigated by the conglomerate.

Even now – despite the fact that filed papers extend to handwritten meeting notes adorned with some intriguing doodles – the picture is less than complete. Some documents (or portions of them) are still withheld from view; one deposition has yet to find its way into evidence; and a squabble continues over whether further depositions should be allowed.

The purpose of the November 14 meeting was set out in an unidentified note to Mr David Verey, chief executive of Lazard Brothers, one of BAT's UK merchant banks. "We cannot rely on Hoylake/Axa failing to surmount US insurance hurdles and moreover cannot be certain that plan B will satisfactorily close the gap," it says.

Plan B referred to the asset disposals/demergers plus share buy-back programme, announced in September. The possible additional defensive moves were tagged Plan C.

One idea followed up immediately was the possibility of "developing a financial services business in Europe". This led to a Warburgs working paper, the draft of which is dated November 22, which looked at four possible partners in the insurance area. Allianz, the German insurer which owns Cornhill, and France's Union des Assurances de Paris were dismissed. Axa-Midi, despite receiving some fairly favourable comments, was clearly tied up with Hoylake.

The most promising candidate was taken to be Generali. Lazards, whose French associate has often acted for the Italian insurer, was instructed to make diplomatic inquiries. The mission was acknowledged to be delicate given Generali's own substantial shareholding in Compagnie du Midi, part of the Axa group.

The documents do not relate where this avenue led. But, several meetings later, the list of potential Euro-partners had widened to include the likes of the Italian Fondiaria group, Union y el Fenix in Spain and Credit Commercial de France.

Patrick Sheehy: Sumitomo was the favoured name

Goldman Sachs, meanwhile, was looking at German expansion possibilities. Its conclusions were not encouraging. The market, the investment bank suggested, was highly competitive and many alliances had been made. However, it did recommend that the state-owned "Landesbanks" could offer interesting opportunities – notably Weil, Bayerische and Hessische.

Simultaneously, the US insurance situation was addressed. At the most basic level, Cazenove, brokers to BAT, drew up a short-list of analysts who could be steered towards doing an "independent" assessment of Farmers' worth. This is fairly critical to the US insurance regulatory proceedings; BAT is arguing that Hoylake undersold Farmers to Axa and that serious legal repercussions could flow.

Consideration was then given to the idea of acquiring Safeco, the Seattle-based insurer. The snags were the scant possibility of an agreed deal and the problem of explaining additional exposure to the Californian insurance market. The idea seems to have been dropped fairly speedily.

But also mooted at later meetings was the notion of a joint venture with American International Group, the large New York-based insurer. AIG, it was suggested, might be interested in some European link-up.

Meanwhile, the tobacco front was not being neglected, either. It is clear that BAT perceives the difference between the stockmarket valuation of its tobacco business and the "private market valuation" as a prime factor behind the Goldsmith interest. As a result, work was undertaken on an intriguing plan for a "leveraged partial disposal" of the tobacco interests.

The idea centred on using Brown & Williamson, the US tobacco subsidiary, as the LPD vehicle. This would borrow funds, acquire the other Batco and Batig tobacco businesses for cash, and "upstream" money to BAT. A 51 per cent interest in the LPD vehicle would then be sold to outside investors, taking the debt off BAT's balance sheet. The possibility of distributing equity in the vehicle to BAT holders was also discussed.

At the same time American Brands, the US tobacco and consumers goods group, shot into BAT's sights – largely because of the "excellent" fit which its Gallaher business offered. Some preliminary work was done – there is even mention of "unbundling" the insurance interests to Axa – but again the deposition of BAT chairman, Mr Patrick Sheehy, makes clear that this was not a suggestion pursued.

Two ideas never came to light in the leaked memo. The first was the "Smith Kline Beckman" option – presumably the pursuit of a friendly partner with which a merger might be contemplated. Shearson Lehman was dispatched to do a trawl of companies capitalised at over £5bn.

The second concerned possible Japanese involvement in the BAT situation. Two approaches were logged by Shearson from Japan Tobacco, which controls a majority of the Japanese tobacco market, offering help to see off Hoylake, and the bankers were requested to investigate.

More generally, the notion of persuading Japanese investors to take anything from 10 to 30 per cent of BAT's equity was advanced. According to Mr Sheehy, Sumitomo – with which BAT has significant commercial links – was the favoured name.

Where all this has led is anyone's guess. BAT, predictably, has downplayed any repercussions. But when Mr Sheehy was asked that question three weeks ago, his lawyer speedily intervened, instructing him not to respond.

"I know you are very nervous about something," suggested Axa's lawyer. "I am not nervous about anything," came the reply. "You are not entitled to inquire into whatever BAT is thinking in connection with your client's offer. Period."

Blue Arrow planning disposals to cut debts

By David Owen

BLUE ARROW, the employment agency group which fell from grace after its \$1.3bn (£778m) takeover of Manpower in 1987, is actively looking to sell 7 US employment services companies as part of a plan to reduce debt.

Mr Mitchell Fromstein, chairman, described the sale of these businesses, which were originally bought in the months prior to the ill-fated Manpower deal, as "the first consideration" in the group's debt reduction strategy.

"From a strategic point of view, these activities are totally unnecessary to the ongoing company", Mr Fromstein said. Together, they account for less than 10 per cent of Blue Arrow's overall sales and a "much smaller" proportion of aggregate profits. None is national in scope.

Mr Fromstein last week unveiled plans to move the group's headquarters to the United States and to change its name back to Manpower. "The roads all lead to the company returning to what it was before it was acquired", he said at the time.

The debt reduction may also precipitate the sale of some British units, including Brook Street Bureau and Blue Arrow Personnel Services, the staff agencies, and Hoggett Bowers, the executive search firm.

Tender offer for SeaCon extended

Temple Holdings, jointly owned by Swedish shipping concern Stena and Tiphook, a UK container rental group, has extended its \$70 per share tender offer for Sea Containers to midnight on February 16.

Temple has already agreed to end its offer for Sea Containers. Instead the Sea Containers' board has advised holders to approve the sale of its ferry, port and container assets to Temple for \$1.1bn. The standstill agreement is contingent on Sea Containers complying with provision of the settlement.

Mainmet agrees to Danish takeover

By Clare Pearson

THE BOARD of Mainmet, the supplier of metering equipment and controls where the shares were quoted on the USM at 60p just a few weeks ago, is recommending a cash offer from ISS, the Danish cleaning group, at 10p per share.

Mainmet said it was now reliant on the continued support of its bankers and had asked ISS, both its biggest supplier and largest trade creditor, to mount a rescue.

Together with the 11.2 per cent it already holds, ISS has received irrevocable undertakings in respect of slightly more than 50 per cent of the share capital.

Meggitt Holdings, the engineering concern, has an 8 per cent stake. Mr Ken Coates, managing director, voiced concern yesterday that Mainmet's board had not kept shareholders better informed.

"We had absolutely no idea of what was going on," he said.

The offer values the whole company at £630,000, against a market value of £3.8m when the shares were suspended last month. The company at that stage said it was in bid talks which might lead to it being sold for a nominal sum.

A takeover by ISS would mark a return to roots for Mainmet, which was part of ISS Clorius, the Danish company's 50 per cent-owned Midlands arm, before a management buy-out in 1981. It floated on the USM in 1983.

Mainmet said it had slipped into a pre-tax loss of over £650,000, before a potential exceptional credit of £233,000, for the first half of the year. The poor trading results had given rise to cash flow problems.

BOARD MEETINGS

TODAY

Finals- Beckenham, Fleming Claverhouse Inv. Trust and UTC.

FUTURE DATES

Interims-

Honeysuckle	Feb. 9
LASMO Oil Production Stk	Mar. 20
Sock Shop Intl.	Feb. 9
Zurich Group	Feb. 16
Finals-	
BTR	Mar. 14
Benlox	Apr. 30
Cityvision	Feb. 20
First Scottish American	Feb. 28
Hickson Intl.	Mar. 16
Iceland Frozen Foods	Mar. 28
LASMO	Feb. 28
Leslie Wise	Feb. 14

Revamped Buckingham turns in £5.4m profit

THE revamped and expanded Buckingham International made a pre-tax profit of £5.41m in the year ended October 31 1989 and "is well on the way to becoming an international hotel and leisure group", according to Mr Nick Jivraj, the chief executive.

In the years 1986-88 the old group incurred losses totalling £1.65m, of which £320,000 related to 1988. Dividends have been passed for two years, but now shareholders are to receive a payment of 1.6p from earnings of 6.98p. The board will also be considering an interim for the current year.

Buckingham, formerly Leisuretime International, owns hotels in Orlando and Houston, in the US, in Jersey (CI), and has started a mixed commercial, residential and hotel development in central Lisbon. It runs nursing and residential care homes and a tour operator.

Turnover in the year under review doubled to £25.72m. Karena Hotels, bought a year ago under its old name of Premier and since expanded, contributed over £4m to £5.5m operating profit. Further progress was expected when recent acquisitions were fully operational.

Country Care Homes improved its contribution to £675,000 and the Preston/Repose travel and hotel group made £737,000.

BASE LENDING RATES

	%		%		%
ABN Bank	15	Co-operative Bank	*15	Northern Bank Ltd	15
Adam & Company	15	Coutts & Co	15	Norwich Gen. Trust	15
Allied Trust Bank	15	Cyprus Popular Bk	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Dunbar Bank PLC	15	PRIVATbanken Limited	15
● Henry Ansbacher	15	Duncan Lawrie	15	Provincial Bank PLC	16
Associates Cap Corp	14	Equatorial Bank plc	15	R. Raphael & Sons	15
● B & C Merchant Bank	15	Exeter Trust Ltd	15½	Roxburghe G'rantee	15½
Bank of Baroda	15	Financial & Gen. Bank	15	Royal Bk of Scotland	15
Banco Bilbao Vizcaya	15	First National Bank Plc.	16	Royal Trust Bank	15
Bank Hapoalim	15	● Robert Fleming & Co.	15	● Smith & Williamson Secs.	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	Standard Chartered	15
Bank of Cyprus	15	Girobank	15	TSB	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	McDonnell Douglas Bnk	15		
City Merchants Bank	15	Meghraj Bank Ltd	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk. N. East	15	Mount Banking	15		
		Nat Bk. of Kuwait	15		
		NatWestminster	15		

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Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
8124	Ass. Brit. Ind. Ord	342xd	0	10.3	3.0	9.2
500	Armitage and Rhodes	20	-2			
142424	Bardon Group (SE)	181	0	4.3	2.4	17.6
19372	Bardon Group Cv. Pref. (SE)	111	0	6.7	6.0	-
4657	Bray Technologies	77	0	5.9	7.7	6.8
	Breedhill Conv Pref	95	-1	11.0	11.6	-
	Breedhill 8¾ New C.C.R.P	95	-1	11.0	11.6	-
1182	CCL Group Ordinary	311xd	+1	14.7	4.7	3.8
2088	CCL Group 11% Conv Pref	167	+2	14.7	8.8	-
16740	Carbo Plc (SE)	210	0	7.6	3.6	12.4
770	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
-	Magnet Gp Non Voting A Cnr*	0.1	0	-	-	-
-	Magnet Gp Non Voting B Cnr*	0.1	0	-	-	-
7965	Isis Group	200xd	-5	8.0	8.0	5.7
23618	Jackson Group (SE)	110	+2	3.6	3.3	12.6
20274	Multihouse N.V.(AmstSE)	260	-2	-	-	-
1357	Robert Jenkins	133xd	-5	10.0	7.5	4.8
17568	Scruttons	366	0	18.7	4.0	9.7
9180	Torday & Carlisle	297	0	9.3	3.1	10.3
	Torday & Carlisle Conv Pref	104	0	10.7	10.3	-
-	Unistrut Europe Conv Pref	159	+1	9.3	5.8	-
5775	Veterinary Drug Co. PLC	350	0	22.0	6.3	9.4
6675	W. S. Yeates	298	-2	16.2	5.4	24.8

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The ISE. Other securities listed above are dealt in subject to the rules of TSA
These securities are dealt in strictly on a matched bargain basis. Neither Granville & Co. Limited nor Granville Davies Limited are market makers in these securities.
* These securities are dealt on a restricted basis. Further details available

FINANCIAL TIMES STOCK INDICES

	Feb 2	Feb 1	Jan 31	Jan 30	Jan 29	Jan 26	1989/90 High	1989/90 Low	Since Compilation High	Since Compilation Low
Government Secs.	81.51	81.66	81.55	81.64	81.77	81.64	89.29	81.04	127.4	49.18
Fixed Interest	91.03	91.08	91.08	90.92	90.94	90.85	99.59	90.85	105.4	50.53
Ordinary	1866.4	1866.0	1864.0	1853.0	1863.9	1851.5	2008.6	1447.8	2008.6	49.4
Gold Mines	362.0	349.3	358.0	364.5	369.6	370.9	371.5	154.7	734.7	43.5
FT-Act All Share	1174.99	1170.77	1167.15	1161.24	1164.32	1158.48	1226.83	921.22	1238.57	61.92
FT-SE 100	2355.1	2345.8	2337.3	2322.0	2328.8	2314.5	2463.7	1782.8	2463.7	986.9

WORLD STOCK MARKETS

AUSTRIA

1989/90 High	Low	February 2	Price Sch
3,960	2,100	Austrian Airlines	3,960
6,150	1,982	Creditanstalt	6,150xr
6,610	3,000	Goesser	6,600
32,000	13,450	Interunfall	30,450
20,400	8,390	Jungbunzlauer	18,700
865	355	Laenderbank	865
2,150	645	Perlmooser	2,150
2,880	880	Reininghaus	2,880
270	152	Semperit	201
192	76	Steyr-Daimler	165
1,260	644	Veitscher Mag	1,095
400	272	Verbund	389

BELGIUM/LUXEMBOURG

1989/90 High	Low	February 2	Price Frs.
7,000	3,850	Arbed	4,995
3,760	3,050	B.B.L.	3,275
15,800	13,500	Bank Intl. a Lux.	15,600
14,900	12,728	Banque Gen. Du Lux	14,850
40,000	35,000	Banque Nat Belg	36,900
16,650	13,525	Bekaert B	16,025
8,490	6,200	Ciment CBR	7,850
6,670	5,164	Cobepa	5,790
6,440	5,270	Do. AFV 1	5,780
510	178	Cockerill	193
21,025	10,000	Cofinoyt	21,025
6,570	4,770	Delhaize	5,450
5,000	4,230	EBES	4,240
4,900	4,150	Do. AFV 1	4,155
880	440	Fabrique Nat.	440
1,510	1,272	GIB Group	1,322
1,530	1,270	Do. AFV	1,302
5,000	3,810	GBL(BruxL)	4,400
4,900	3,825	Do. AFV 1	4,380
4,900	3,820	Do. AFV 2	4,390
1,178	590	Gechem	818
1,090	560	Do. AFV	810
6,760	5,100	Generale Bank	5,300
6,740	5,300	Do. AFV 1	5,360
7,100	5,800	Do. AFV 2	5,810
8,724	7,524	Gevaert	8,250
3,955	3,430	Intercom	3,515
3,880	3,385	Do. AFV 1	3,405
3,880	3,390	Do. AFV 2	3,410

FRANCE (continued)

1989/90 High	Low	February 2	Price Frs.
1,129	829	Auxiliaire d'Ent.	1,012
865	675	BIC	799
780	617	BSN	721
705	420	Bancaire Cie	590
459	293.1	BNP (Cert. Inv.)	378
785	583	Beghin-Say	785
540	385	Do. Certs	529
3,364	2,785	Bongrain	3,025
780	533	Bouygues	587
1,669	1,322	CGIP	1,427
260	198	CMB Packaging	215
3,713	2,250	Carrefour	3,350
239.8	164	Casino	166.4
860	528	Cetelem	547
1,455	987	Chargeurs	1,265
1,825	1,200	Ciments Fr.	1,432
788	493.1	Club Mediterranee	712
432	333	Coflmeg	416.9
419.5	337	Cogifi	390.1
567	368	CGE	567
405	302	Coparex	356
1,400	701	Cred Foncier Fr	1,263
1,395	940	Credit National	1,395
4,440	2,952	Damart	4,065
5,900	2,720	Docks de France	4,800
643	447	Dollfuss-Mieg	625
1,149	783	Dumez S.A.	831
2,385	1,540	Eaux (Cie Gen)	2,135
675	420.5	Ecco	480
1,199	856	Electrofin're	990
588	383	Elf-Aquitaine	588
445	328	Do. Certs	437
1,511	1,034	Epeda-Bertrand	1,303
3,875	2,715	Essilor	2,855
3,099	1,941	Eternit (Fin.)	2,125
2,875	1,549	Eurafrance	2,395
2,010	1,270	Eurocom	1,866
95	77.5	Euro Disneyland	93
4,920	2,340	Euromarche	4,795
2,029	1,205	Exor	1,916
228	198	Finextel	209.4
989	455	Fonciere Lyonn	856
2,880	1,591	Fromageries	2,419
1,590	808	GTM-Entrepose	1,320
1,070	528	Gaumont (Soc N)	1,040
1,180	900	Gen Geophysique	1,175

INDICES

NEW YORK

DOW JONES	Feb 2	Feb 1	Jan 31	Jan 30	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2602.70	2586.26	2590.54	2543.24	2810.15 (2/1/90)	2144.64 (3/1/89)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	91.92	91.12	[illegible]	91.82	94.15 (2/8/89)	87.35 (23/3/89)	—	—
Transport	1063.38	1048.25	1045.67	1033.89	1532.01 (5/9/89)	959.95 (3/1/89)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	224.25	223.25	223.65	216.69	236.23 (2/1/90)	181.84 (24/2/89)	236.23 (2/1/90)	10.50 (8/4/32)

(Day's High 2623.65 (2611.49) Low 2577.03 (2571.43))

STANDARD AND POOR'S

	Feb 2	Feb 1	Jan 31	Jan 30	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	330.92	328.79	329.07	322.98	359.80 (9/10/89)	275.31 (3/1/89)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	380.12	378.33	378.69	371.92	411.20 (2/1/90)	318.66 (3/1/89)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	27.97	27.89	27.93	27.31	35.24 (9/10/89)	24.30 (3/1/89)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	182.75	181.92	181.90	178.43	199.34 (9/10/89)	154.98 (3/1/89)	199.34 (9/10/89)	4.46 (28/4/42)
Amex Mkt. Value	353.56	351.90	350.67	345.90	397.03 (10/10/89)	305.24 (3/1/89)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	412.21	407.76	415.81	410.72	485.73 (9/10/89)	378.56 (3/1/89)	485.73 (9/10/89)	54.87 (31/10/72)

	Jan 26	Jan 19	Jan 12	year ago (approx.)
Dow Industrial Div. Yield	4.20	3.99	3.96	3.46

	Jan 31	Jan 24	Jan 17	year ago (approx.)
S & P Industrial div. yield	3.13	3.11	3.08	3.12
S & P Ind. P/E ratio	14.04	14.09	14.39	13.40

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Goodrich	4,392,400	25⅝	+ 5⅝
Philip Morris	2,380,500	38¾	+ ⅛
USX Corp	2,328,400	34¼	+ ⅛
A T & T	1,971,700	39⅞	+ 1
IBM	1,516,100	98⅞	+ ⅝
Chrysler	1,476,600	16	− ⅛
Gen Motors	1,347,900	42⅞	—
Bank New Eng	1,281,200	5¼	+ ⅛
Nat Semi	1,275,300	6⅛	—
Gen Electric	1,275,000	61⅞	—

TRADING ACTIVITY

† Volume Millions	Feb 2	Feb 1	Jan 31
New York	164.400	151.057	190.285
Amex	11.558	11.374	11.9695
NASDAQ	[illegible]	136.470	147.997
Issues Traded	1,962	1,958	1,963
Rises	1,004	878	1,107
Falls	494	641	445
Unchanged	464	439	411
New Highs	19	18	8
New Lows	46	72	90

CANADA

TORONTO	Feb 2	Feb 1	Jan 31	Jan 30	1989/90 HIGH	1989/90 LOW
Metals & Minerals	3029.47	3004.18	3057.12	3048.70	3919.2 (1/9/89)	3004.18 (1/2/90)
Composite	3719.57	3709.05	3704.42	3787.00	4037.8 (6/10/89)	3350.5 (6/1/89)
MONTREAL Portfolio	1876.80	1872.91	1871.06	1864.30	2069.68 (10/10/89)	1677.48 (3/1/89)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Feb 2	Feb 1	Jan 31	Jan 30	1989/90 HIGH	1989/90 LOW
Jardine & F. (31/12/56)	(u)	(u)	(u)	(u)	4660.3 (16/8/89)	3333.9 (3/1/89)
SWITZERLAND Swiss Bank Ind. (31/12/58)	763.4	754.7	750.5	748.8	829.1 (6/9/89)	613.1 (3/1/89)
TAIWAN** Weighted Price (30/6/66)	12217.78	12087.23	12054.35	(c)	12217.78 (2/2/90)	4873.01 (3/1/89)
THAILAND Bangkok SET (30/4/75)	832.20	845.35	853.72	862.42	918.67 (3/1/90)	386.73 (2/1/89)
WORLD M.S. Capital Intl. (1/1/70)	(u)	541.6	539.9	538.9	571.0 (4/1/90)	487.6 (13/6/89)

**Saturday Jan. 27: Taiwan Weighted Price: (c) Korea Comp Ex. 905.75

‡ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday February 2 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
MHI	16.0m	1,150	+80	Marubeni	8.0m	1,010	+14
Nippon Mining	13.0m	1,080	+30	Sasebo Hvy Ind	7.8m	923	+16
IHI	11.1m	1,380	+40	Nippon Oil	7.7m	1,780	+20
Teikoku Oil	9.1m	1,740	+40	Mitsui Mining	7.6m	1,180	+70
Kawasaki Steel	8.0m	817	-8	Hitachi Zosen	6.8m	876	+25

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● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	42.36	48.30	51.75	+0.2	6.29
Gilts & Fixed Int	6	106.0	106.0	112.4	-0.2	9.79
High Inc Equity	6	137.5	137.5	147.1	+0.1	8.32
Worldwide Bond	6	196.9	196.9	208.6	...	8.13
Capital Growth						
American Growth	6	176.6	176.6	188.9	-0.1	1.16
Asian Pacific	6	124.7	127.3	135.5	+1.3	0.46
Assets & Earnings	6	158.5	158.5	169.6	-3.3	2.18
Capital Reserve Acc	0	88.95	88.95	89.05	+0.08	6.74
Capital Reserve Inc	0	78.91	78.91	79.01	+0.07	7.50
Commodity & Energy	6	116.8	116.8	125.0	-1.1	1.52
Dividend & Growth	6	[illegible]	47.56	50.64	...	1.46
1992 Enterprise	6	62.12	62.12	66.44	+0.03	2.58
Euro Capital Acc	6	100.2	100.9	107.4	+0.6	0.70
Euro Capital Inc	6	96.54	97.29	103.9	+0.5	0.72
General	6	177.8	177.8	190.2	-0.2	2.45
International	6	61.49	62.31	66.29	+0.3	0.75
Japan	6	116.6	116.6	124.8	-0.1	0.00
Mastertrust	6	90.42	90.42	96.71	+0.11	1.76
UK Growth Acc	6	182.6	182.6	195.3	-0.2	1.63
UK Growth Dist	6	120.7	120.7	129.1	-0.1	2.46
US Emerging Cos	6	48.96	48.96	52.57	+0.03	0.00
Income & Growth	6	304.9	304.9	326.1	-3.8	3.16
Ethical	6	48.40	49.63	52.85	[illegible]	1.89

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

Brycourt Unit Tst Mngt Ltd (1400)F

Buckmaster Mangmt Co Ltd (1200)H
The Stock Exchange, London EC2P 2JT 01-588 2868

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 01-488 7216

CCF Foster Braithwaite UT Mngt (1100)F
1 White Hart Yard, London SE1 1NX 01-407 5966

CCL Unit Trusts Ltd (1400)F

CIBC Unit Tst Managers plc (1200)H

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH

FK English Trust (Inv Mant) Ltd (1000)F
12 Cardinfactor St, London EC1M 6EB 01-796 1200

	Init Chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American*	4	58.58	58.97	62.57	...	0.0
Far Eastern*	4	182.96	187.23	194.72	...	[illegible]
Growth	4	190.98	192.38	203.97	...	3.2
Income	4	144.35	146.15	155.40	...	[illegible]
[illegible]	4	74.19	74.19	77.16	...	[illegible]

† Dealing Day: Wed. *Dealing day: Thurs.

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The max bid/offer spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ✪ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 7HF 01-493 7262						
Dealing 01-493 8545						
American Opps	5	46.02	47.09	50.22	+0.43	1.07
(Accum Units)	5	47.36	48.46	51.68	+0.44	1.07
European Opps	5	70.13	70.41	75.09	+0.70	0.00
(Accum Units)	5	70.52	70.80	75.51	+0.71	0.00
Far Eastern Opps	5	138.67	138.79	148.03	+0.86	0.00
(Accum Units)	5	139.56	139.68	148.98	+0.86	0.00
Golden Opps	5	46.18	46.51xd	49.60	+0.71	0.00
(Accum Units)	5	47.50	47.84xd	51.02	+0.74	0.00
Intl Hi-Yield	5	57.80	58.18xd	62.05	+0.40	4.42
(Accum Units)	5	62.75	63.16xd	67.37	+0.44	4.42
Sanyo Japan Tst	5	73.90	74.08	79.01	+0.12	0.00
(Accum Units)	5	73.90	74.08	79.01	+0.12	0.00
Kangaroo	5	33.28	33.28	35.49	+0.12	1.48
(Accum Units)	5	33.47	33.47	35.69	+0.12	1.48
Oriental Income	5	34.20	34.26	36.54	+0.27	5.15
(Accum Units)	5	38.34	38.41	40.96	+0.30	5.15
Pacific Technology	5	57.84	57.84	61.68	-0.68	0.00
(Accum Units)	5	58.30	58.30	62.18	-0.69	0.00
Tiger	5	146.72	147.17	156.97	+0.93	0.72
(Accum Units)	5	149.01	149.47	159.42	+0.94	0.72
UK Hi-Yield	5	43.17	43.17	46.03	-0.07	4.95
(Accum Units)	5	49.36	49.36	52.64	-0.07	4.95
UK Opps	5	54.22	54.22	57.98	-0.43	1.99
(Accum Units)	5	58.79	58.79	62.87	-0.47	1.99
Three Counties Asset Mngmt Ltd (1430)F						
Cuthbert House, Tower Rd, Washington NE37 2SH 091 415 3034						
Balanced Portfolio	6	94.233	94.233	100.248	....	4.00
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4 01-248 1250						
4 Hourly Pricing – 12 Noon Historic						
TR American Gwth	5¼	43.50	43.50	46.40	(z)	0
TR Eur Sp Sits Acc	5¼	41.34	41.34	44.05	(z)	0
TR Eur Sp Sits Inc	5¼	40.53	40.53	43.20	(z)	0
TR General Growth	5¼	76.14	76.14xd	81.00	(z)	2.74
TR Global Tech	5¼	68.33	68.33	72.88	(z)	0
TR Income Growth	5¼	89.57	90.07xd	95.81	(z)	4.35

	Bid Price	Offer Price	+ or -	Yield Gross
J. Rothschild Fund Managers Ltd				
Intl Exempt	145.3	147.0	—	1.42
Stewart Ivory & Co Ltd				
Saints PPP Jan 21	264.6	278.6	—	–
Closed to new business				
Thornton Unit Managers Ltd				
Managed Exempt Feb 1	102.42	108.42xd	—	3.82
(Accum Units)	103.04	109.08xd	—	3.82
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1097	1111	—	1.61
TR Exempt Nth Amer	882	896	—	3.73
TR Exempt Pac Basin	991	1004	—	0

INSURANCES

	Bid Price	Offer Price	+ or -	Yield Gross
AA Friendly Society				
(Investment Mngt M & G Inv Mngt Ltd)				
AA Friendly Sy Jan 12	–	177.0	—	–
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser. 1	301.4	317.3	....	–
Equity Ser 1	134.4	141.5	-0.7	–
Prop. Acc. Ser 2	464.7	489.2	+0.1	–
Equity Ser 2	156.0	164.3	-0.6	–

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Managed Cautionary	106.0	112.6		—
Managed Growth	141.3	148.8	+0.5	—
Managed Opportunity	145.2	152.9	+0.5	—
NFMC Target Financial	103.9	109.4		—
Pension Funds				
Managed Cautionary	110.5	116.4	−0.1	—
Managed Growth	145.7	153.4	+0.7	—
Managed Opportunity	148.4	156.3	+0.4	—
NFMC Target Mngd Pen	1549.7	1631.3	+3.3	—

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or −	Yield Gross
Managed Fund	226.6	238.6		—
Managed Prospect Fund	190.1	200.2		—
Pens Managed	[illegible]	301.2		—
Pens UK Equity	345.9	364.2		—
Pens Overseas Equity	365.6	384.8		—
Pens Property	173.7	182.9		—
Pens Fixed Interest	177.6	187.0		—
Pens Index Linked	147.5	155.3		—
Pens Deposit	188.2	198.2		—
Narveller & P.R.P.				
UK Equity	151.1	159.1		—
Overseas Equity	130.8	137.7		—
Fixed Interest	121.4	127.8		—
Property	144.5	152.2		—
Index Linked	135.4	142.0		—
Deposit	130.5	137.4		—
Managed	144.1	151.7		—
With Profits	134.1	141.2		—

National Provident Institution
48 Gracechurch St, London EC3P 3HH 01-623 4200

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	346.5	364.8	+0.6	—
UK Equity	448.6	472.3		—
Overseas Eq	351.2	369.7	+2.0	—
American	251.7	265.0	+1.3	—
Far East	404.8	428.3		—
Property	220.8	232.5	+0.1	—

Providence Capital Life Assc. Co Ltd — Contd.

	Bid Price	Offer Price	+ or −	Yield Gross
Property Initial	149.1		−0.1	—
Money Initial	78.3			—
Special Market Initial	137.3		+0.2	—
Japan Equity Initial	119.4		+1.5	—
North American Initial	79.9		+0.1	—
Pacific Initial	81.3		+0.1	—
Technology Initial	107.9		−0.2	—
Nat Resources Initial	56.5		−0.2	—
European Initial	123.8		+0.4	—
Residential Prop Init	103.6		−0.1	—
Swiss Equities Initial	36.0		+0.6	—
Hong Kong Initial	43.4		−0.7	—
UK High Inc Eq Init	70.0			—
Int Fixed Interest Init	50.1		+0.2	—
Int Managed Init	56.1			—
HIP Managed Init	113.1		+0.2	—
Broker Funds				
High Performance	75.0	79.1	+1.0	—
Townhill Mngd Fd Acc	53.4	56.3	+0.8	—
YRA Executive Fd	92.5	97.5	+0.2	—
£ Global Growth Acc	130.9	137.6		—
£ High Income Money Acc	112.4	117.7		—
MG Balanced	55.8		+0.1	—
H.F. Speculator Fd	153.2		+0.2	—
PEP Accum H	125.7		+0.2	—
PEP Cautionary	96.6		−0.7	—
AAF 5 Int Man Fund	122.7		+0.7	—
Andrews-Green Inv Port	104.7			—
Individual Pension Funds				
UK Equity Acc	228.8	241.4	−0.6	—
UK Fixed Interest Acc	178.2	188.0	+0.4	—
Intl Equities Acc	242.5	255.9		—
UK Managed Acc	185.0	195.1	−0.1	—
Property Acc	212.5	224.2	−0.1	—
Money Acc	134.5	141.9		—
Special Market Acc	276.6	291.8	+0.5	—
Japan Equity Acc	249.7	263.4	+3.9	—
North American Acc	123.7	130.5	+0.2	—
Pacific Acc	199.8	210.8	+0.4	—
Technology Acc	182.3	192.3	−0.7	—
Natural Resources Acc	111.2	117.3	−0.4	—
European Acc	137.7	145.3	+0.9	—

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gartmore Luxembourg SA						
23 Rue des Bruyeres L-1274 Howald Lux 010 352 491841						
Gartmore Pantheon Fund						
Nth Amer Equity		$–	1.97		+0.01	–
British Equity		£–	1.01			–
Nordic Equity		SKr–	10.66		+0.12	–
Cont'l European Equity		DM–	16.98		+0.21	–
Japan Equity		Y–	536.00		+3.00	–
Pacific Equity		Y–	266.00		+1.00	–
Developing Mkts		$–	1.02		.....	–
Natural Resources		$–	2.07		.....	–
W'wide Recovery		$–	1.58		-0.01	–
Intl Equity		$–	1.34		-0.01	–
Dollar Bond		$–	1.97		.....	–
Sterling Bond		£–	1.00		.....	–
European Currency Bond		Ecu–	1.48		+0.01	7.33
Intl Conv Bond		$–	2.08		.....	–
Dollar Reserve		$–	2.02		.....	–
Sterling Reserve		£–	1.04		.....	–
Deutschmark Reserve		DM–	5.04		.....	–
Yen Reserve		Y–	504.00		.....	–
Henderson Management SA						
21-25 Allee Scheffer L-2520 Luxembourg 01-638 5757 or 010-352 462232						
Henderson Horizon Fund						
Japanese Portfolio		$–	15.40	16.27	-0.03	–
Japan Smlr Cos P'flio		$–	22.30	23.56	+0.05	–
Pacific Portfolio		$–	12.34	13.05	+0.04	–
Nth American P'folio		$–	4.52	4.79	+0.01	–
European Portfolio		$–	8.68	9.18	+0.12	–
UK Portfolio		$–	6.17	6.54	-0.01	–
Global Portfolio		$–	9.92	10.48	+0.06	–
Fixed Int Portfolio		£–	9.18	9.64	-0.01	–
Dollar Liquidity P'folio		$–	0.8498	0.8520	[illegible]	–
Stg Liquidity P'folio		£–	1.1623	1.1653	[illegible]	–
Hill Samuel Investment Services Intl SA						
Marktgasse 63/65, 3001 Berne, Switzerland 224051						
Hill Samuel Global Portfolio						
Global Equity			$9.46		.....	–
Global Bond			$9.36		.....	–
Global Managed			$9.40		.....	–
Sterling Fixed Int			£9.46		.....	–
European Fixed Int			DM9.23		.....	–
UK Equity			£9.50		.....	–

	Bid Price	Offer Price	+ or -	Yield Gross
NM Financial Mgmt Intl Ltd				
Mngd Currency	£6.552	6.883	+0.003	6.06
NM Portfolio Selection Fund Ltd				
Conscience	£1.076	1.144	+0.002	1.34
Far East Gwth	$1.394	1.482	+0.013	0.00
Smaller Co's	£0.988	1.051	.....	1.19
Special Sits	£1.007	1.071	-0.001	0.75
Intl Bond	$0.903	0.960	+0.009	5.54
American Fund	$1.875	1.994	.....	2.32
American Smaller Cos	$1.124	1.195	+0.007	0.00
Australian Fund	£1.674	1.780	+0.026	1.72
British Fund	£1.560	1.659	.....	5.24
European Fund	£2.217	2.358	+0.025	0.88
Gold Fund	£0.810	0.861	+0.009	0.00
Hong Kong Fund	£1.481	1.575	+0.001	5.67
International Fund	£1.455	1.547	+0.006	0.33
Japanese Fund	£3.158	3.359	+0.006	0.00
Japan Smaller Cos	£5.266	5.602	-0.006	0.00
Singapore & Malaysian	£1.528	1.625	+0.025	0.00
Dollar Fixed Interest	$0.992	1.055	+0.003	6.92
Sterling Fixed Int	£0.905	0.962	+0.002	11.45
Deutschemark Currency		DM5.027	+0.003	2.36
Dollar Currency		$1.003	+0.002	4.91
Sterling Currency		£1.028	+0.002	10.48
Yen Currency		Y200.6	+0.200	1.40
Managed Currency	£0.993	1.056	.....	6.94
Nikko Capital Mngt (Europe) Ltd				
Japan Index Fund	Y4,151	4,192	.....	–
New Generation Fd. $	$23.48	23.71	.....	–
Japan Index Alpha	Y12,663	12,855	.....	–
Jap Sector Rotation	Y10,404	10,558	.....	–
Stronghold Asset Mngmt (Guernsey) Ltd				
Tech and Comm	£11.35	12.04	.....	–
Pacific Basin Fd	$116.63	123.67	.....	–
Western European	$19.32	20.50	.....	–
Tyndall International (Guernsey) Ltd				
Capital Defender	$1.24	1.31	.....	15.11
Hi Yield Bond	63.0	66.2	.....	–
Internat. Spec. Sits	52.9	55.7	+0.3	–
Maruzouki Fd	90.6	95.2	+0.3	–
U.S. Treasury Securities Fund Ltd				
Short Term Shares		$491.56	.....	–
Fixed Income Shares		$803.18	.....	–

DUBLIN (**)

AIG Fund Management Ltd "BT Trusts"

OFFSHORE INSURANCES

SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Australian dollar to stay volatile

IT IS not uncommon for currencies to take the strain when a Government with economic problems faces an election. An example is the Australian dollar. Two weeks ago Mr Paul Keating, the Australian Treasurer, said monetary policy was to be eased because of a "marked slowdown which has occurred in several sectors of the economy."

UK clearing bank base lending rate 15 per cent from October 5

Since then the Australian dollar has been volatile. It weakened from 79.00 US cents to a low of 75.50 cents, as the market took a sceptical view of the ruling Labour Party's motives. A general election must be held by early May, and with high interest rates squeezing living standards the result is hanging in the balance.

An electorally popular move would be a cut in mortgage rates from the present 17 per cent. To this end the authorities have nudged cash market rates down ¼ per cent, but further reductions are needed if mortgage rates are to be reduced.

Foreign exchange dealers believe the Government is happy with a weaker currency, but Ministers did not expect such a sharp fall on a relatively modest easing of monetary policy. However, a recovery of about half this loss is likely to encourage a further cut in rates.

Stop loss orders were triggered when the currency climbed through resistance at 77.10 cents, rising to 77.40 cents at the close in London on Friday. A further move up to 77.70 or 78.30 cents looks possible in the near future.

In the longer term, further rate cuts may bring the rate down to 75.00 cents, but in a more controlled manner.

£ IN NEW YORK

Feb.2	Close	Previous Close
£ Spot	1.6840-1.6850	1.6840-1.6850
1 month	0.86-0.85pm	0.86-0.85
3 months	2.72-2.70pm	2.74-2.72pm
12 months	9.25-9.15pm	9.23-9.13pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Feb.2	Bank of England Index	Morgan** Guaranty Changes %
Sterling	89.2	-22.3
U.S Dollar	67.2	-11.0
Canadian Dollar	102.3	-0.4
Austrian Schilling	109.9	+12.1
Belgian Franc	110.0	-3.3
Danish Krone	109.0	+3.6
Deutsche Mark	118.7	+25.1
Swiss Franc	108.8	+16.7
Guilder	114.5	+16.5
French Franc	103.6	-12.5
Lira	100.2	-18.8
Yen	128.4	+59.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Feb.1.

OTHER CURRENCIES

Feb.2	£	$
Argentina	2982.00-3067.85	1775.00-1825.00
Australia	2.1705-2.1725	1.2915-1.2925
Brazil	30.3830-30.4555	18.0850-18.1075
Finland	6.6615-6.6820	3.9600-3.9700
Greece	262.75-267.25	156.20-158.80
Hong Kong	13.1200-13.1330	7.8100-7.8130
Iran	115.40*	69.30*
Korea(Sth)	1150.25-1168.75	684.70-690.10
Kuwait	0.48750-0.48850	0.29050-0.29100
Luxembourg	59.20-59.30	35.20-35.30
Malaysia	4.5295-4.5405	2.6970-2.6990
Mexico	4527.60-4547.10	2695.00-2705.00
N. Zealand	2.7950-2.8000	1.6630-1.6660
Saudi Ar.	6.2950-6.2990	3.7500-3.7510
Singapore	3.1340-3.1410	1.8655-1.8675
S. Af (Cm)	4.2840-4.2950	2.5500-2.5515
S. Af (Fn)	5.5095-5.6020	3.2785-3.3335
Taiwan	43.75-43.85	26.05-26.10
U.A.E.	6.1635-6.1685	3.6720-3.6730

*Selling rate

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CHICAGO

[illegible]

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
1.600	8.00	7.95	7.90	8.06	-	0.26	0.85	2.41
1.625	5.50	5.47	5.58	6.07	0.22	0.69	1.53	3.39
1.650	3.15	3.45	3.74	4.47	0.30	1.55	2.40	4.61
1.675	1.38	2.07	2.37	3.22	1.29	2.62	3.71	16.05
1.700	0.46	1.40	1.51	2.26	2.81	4.22	5.53	7.69
1.725	0.09	0.52	0.95	1.64	4.85	16.16	7.20	9.51
1.750	-	0.21	-	-	-	-	-	11.48

Previous day's open int: Calls 385,096 Puts 372,721 (All currencies)
Previous day's volume: Calls 11,190 Puts 35,669 (All currencies)

POUND SPOT- FORWARD AGAINST THE POUND

Feb.2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6785-1.6845	1.6810-1.6820	0.87-0.85cpm	6.14	2.72-2.69pm	6.44
Canada	1.9945-2.0020	1.9980-1.9990	0.39-0.29cpm	2.04	1.23-1.09pm	2.32
Netherlands	3.19¾-3.20¾	3.19¾-3.20¾	1½-1¼cpm	5.63	4¾-4½pm	5.79
Belgium	58.95-59.40	59.20-59.30	25-17cpm	4.25	72-60pm	4.46
Denmark	10.89-10.99¼	10.95¾-10.96¾	2¾-2¼orepm	2.67	8¾-7¼pm	2.83
Ireland	1.0615-1.0765	1.0675-1.0685	0.30-0.25cpm	3.09	0.90-0.85pm	3.28
W. Germany	2.82¼-2.84	2.83¼-2.83¼	1½-1¼pfpm	6.34	4¾-4½pm	6.51
Portugal	248.30-250.30	249.30-250.30	6-36cdis	-1.01	110-181dis	-2.33
Spain	182.30-183.95	182.70-183.00	12-4cpm	0.53	24-10pm	0.37
Italy	2098¾-2110½	2104¼-2105¼	5-1lirepm	1.71	13-8pm	2.00
Norway	10.88¾-10.97	10.93¾-10.94¾	3½-2¾orepm	3.36	9¾-8½pm	3.29
France	9.58¾-9.64¾	9.63¾-9.64¾	3¾-3cpm	3.97	10-9½pm	4.04
Sweden	10.29½-10.33	10.32-10.33	N/A	N/A	N/A	N/A
Japan	243¾-245	244-245	1¾-1½ypm	7.67	4¾-4⅝pm	7.67
Austria	19.87-20.00	19.97-20.00	11¼-9¾gpm	6.34	32-28½pm	6.05
Switzerland	2.51¼-2.52¼	2.51-2.52	1¼-⅞cpm	4.77	3¼-3pm	5.07
ECU	1.3835-1.3905	1.3895-1.3905	0.25-0.23cpm	2.07	0.81-0.77pm	2.27

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 59.30-59.40 Six-month forward dollar 5.19-5.14cpm 12 months 9.30-9.20pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Feb.2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6785-1.6845	1.6810-1.6820	0.87-0.85cpm	6.14	2.72-2.69pm	6.44
Ireland†	1.5725-1.5805	1.5715-1.5725	0.41-0.36cpm	2.93	1.38-1.28pm	3.37
Canada	1.1855-1.1895	1.1880-1.1890	0.39-0.43cdis	-4.15	1.21-1.27dis	-4.18
Netherlands	1.8895-1.9050	1.9005-1.9015	0.05-0.08cdis	-0.41	0.19-0.25dis	-0.46
Belgium	34.95-35.30	35.20-35.30	4.00-7.00cdis	-1.88	15.00-20.00dis	-1.99
Denmark	6.47½-6.52¾	6.51¼-6.52¼	1.78-1.98oredis	-3.47	5.70-6.20dis	-3.66
W. Germany	1.6750-1.6915	1.6855-1.6865	0.04-0.02pfpm	0.21	0.05-0.02pm	0.08
Portugal	148.05-148.30	148.20-148.30	80-95cdis	-7.10	305-330dis	-8.58
Spain	108.30-108.95	108.85-108.95	50-60cdis	-6.08	172-182dis	-6.52
Italy	1244½-1254½	1251¼-1252¼	4.00-5.50liredis	-4.56	13.00-15.00dis	-4.48

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

Treasury Bills (sell); one-month 14⅛ per cent; three months 14⅛ per cent; Bank Bills (sell); one-month 14⅛ per cent; three months 14½ per cent; Treasury Bills; Average tender rate of discount 14.4760 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day January 31, 1990. Agreed rates for period February 26 1990 to March 25, 1990, Scheme I: 15.89 p.c., Schemes II & III: 16.43 p.c. Reference rate for period Dec.30, 1989 to January 31, 1990, Scheme IV&V: 15.199 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from January 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9, 1989. Deposits withdrawn for cash 5 per cent.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY FEBRUARY 2 1990 US Dollar Index	% change since Dec.29 '89	Pound Sterling Index	Local Currency Index	% change local currency since Dec.29 '89	Gross Div. Yield	THURSDAY FEBRUARY 1 1990 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989/90 High	1989/90 Low	Year ago (approx)
Australia (84)	150.57	-0.5	132.76	129.39	+1.5	5.21	150.24	132.39	129.81	160.41	128.28	150.78
Austria (19)	230.76	+26.7	203.46	202.30	+26.5	1.31	221.51	195.19	193.60	230.76	92.84	94.55
Belgium (61)	148.81	-3.8	131.21	129.55	-4.6	4.31	149.32	131.58	129.25	160.02	125.58	133.00
Canada (120)	140.04	-8.0	123.48	120.52	-5.6	3.31	139.91	123.28	120.15	154.17	124.67	136.52
Denmark (36)	251.58	+3.9	221.82	223.09	+2.9	1.42	249.15	219.55	220.26	251.58	185.35	155.25
Finland (26)	148.75	+11.8	131.15	123.78	+9.4	2.52	148.41	130.77	123.50	159.16	118.83	135.30
France (125)	151.38	-3.0	133.46	136.16	-3.8	2.77	150.03	132.20	134.32	157.97	112.57	118.60
West Germany (96)	132.69	+7.2	116.99	116.30	+6.9	1.82	129.63	114.23	113.22	132.69	79.56	84.28
Hong Kong (48)	112.24	-4.2	98.97	112.56	-4.1	5.07	112.26	98.92	112.57	140.33	86.41	129.37
Ireland (17)	197.20	+8.6	173.88	176.78	+7.3	2.36	197.56	174.08	176.29	198.57	125.00	135.56
Italy (96)	97.98	-0.5	86.39	91.62	-1.7	2.50	98.40	86.71	91.72	102.11	74.97	79.02
Japan (455)	185.66	-5.9	163.70	170.58	-4.9	0.48	185.85	163.77	170.17	200.11	164.22	192.11
Malaysia (36)	234.39	+2.3	206.66	243.55	+2.3	2.20	230.19	202.83	239.01	238.21	143.35	156.63
Mexico (13)	371.93	+14.3	327.94	1097.96	+14.7	0.47	359.04	316.38	1059.91	371.93	153.32	161.66
Netherland (43)	140.11	-2.8	123.54	121.57	-3.1	4.42	139.36	122.80	120.50	145.66	110.63	113.43
New Zealand (18)	70.98	-1.5	62.58	62.73	-2.6	5.62	69.99	61.67	62.04	88.16	62.64	73.96
Norway (24)	225.90	+13.0	199.18	199.53	+11.5	1.37	227.22	200.22	200.08	227.22	139.92	156.10
Singapore (26)	193.53	+9.2	170.64	165.47	+7.3	1.75	189.72	167.18	162.93	193.53	124.57	139.48
South Africa (60)	233.98	+19.1	206.30	169.07	+11.2	3.29	221.92	195.55	165.27	233.98	115.35	122.09
Spain (43)	156.00	-4.3	137.55	128.70	-4.8	4.11	154.94	136.53	127.59	169.75	143.14	145.28
Sweden (35)	198.89	+3.6	175.37	180.79	+2.7	1.89	198.30	174.74	179.80	206.95	138.45	150.09
Switzerland (62)	95.83	+1.9	84.49	88.88	-1.2	2.02	94.15	82.97	87.41	98.12	67.81	75.60
United Kingdom (306)	161.20	+1.6	142.13	142.13	-2.6	4.45	160.69	141.60	141.60	164.31	133.26	150.26
USA (542)	133.80	-6.5	117.97	133.80	-6.5	3.53	132.92	117.13	132.92	146.29	112.13	120.82
Europe (989)	144.45	+1.5	127.36	127.36	-0.8	3.36	143.29	126.26	126.06	146.68	112.63	118.97
Nordic (121)	196.78	+5.0	173.50	169.39	+4.0	1.68	195.87	172.60	168.17	198.12	137.95	143.73
Pacific Basin (667)	181.69	-5.7	160.20	166.85	-4.6	0.73	181.82	160.22	166.45	194.72	160.44	187.74
Euro-Pacific (1656)	167.00	-3.3	147.25	151.14	-3.3	1.65	166.61	146.81	150.36	174.18	141.56	160.23
North America (662)	134.06	-6.6	118.22	132.97	-6.4	3.52	133.24	117.41	132.12	146.66	112.79	121.66
Europe Ex. UK (683)	132.88	+1.4	117.16	118.18	+0.5	2.64	131.38	115.77	116.46	134.66	96.30	99.71
Pacific Ex. Japan (212)	133.95	-0.7	118.11	120.16	+0.2	4.77	133.37	117.52	119.99	140.05	111.93	135.21
World Ex. US (1849)	166.84	-3.2	147.10	150.56	-3.2	1.72	166.34	146.57	149.76	173.77	141.49	159.03
World Ex. UK (2085)	153.35	-4.7	135.21	145.19	-4.4	2.04	152.71	134.56	144.33	162.00	136.98	143.69
World Ex. So. Af. (2331)	153.54	-4.4	135.38	144.70	-4.3	2.26	152.98	134.80	143.89	161.84	136.67	144.40
World Ex. Japan (1936)	139.25	-2.9	122.78	131.67	-3.7	3.50	138.19	121.77	130.62	145.52	114.51	121.29
The World Index (2391)	154.03	-4.2	135.81	144.87	-4.2	2.27	153.40	135.17	144.04	162.05	136.68	144.26

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent change :Name change: Toa Nenryo to Tonen Corp.(Japan)(1/2/90).
Prices for Finland & Sweden were not fully updated following problems at the exchanges.

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Annualised dividend b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♥ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. * Third Market.

CROSSWORD

No.7,156 Set by DANTE

ACROSS

1 Song about a sailor overseas (6)
4 It rarely turns out like this in books (8)
9 The French always turn back from this show (6)
10 Players' entrance at the football ground? (4,4)
12 Eats when the sun comes out (8)
13 Country girl on the vessel (6)
15 His victims got it in the neck (4)
16 Napoleon's novel home (6,4)
19 Appears to accept poetry of acceptable quality (10)
20 There's need for variety in a garden (4)
23 Content of a book (8)
25 Animals cannot be put inside this vessel (8)
27 Told off (8)
28 Knock out some facts about an aircraft (6)
29 Allocates to workers on strike (5,3)
30 Light sleep? (6)

DOWN

1 Endless assorted tropical fruit (7)
2 Coming upon a river may be exciting (9)
3 He had high-flying ambition but became unstuck (6)
5 The bird or one encore? (4)
6 Watch dances in which one has pupils (8)
7 Perfume from far Oman (5)
8 It was used for suspended sentences at sea (4-3)
11 Write a number of chain letters? (7)
14 Beautiful girl who causes havoc? (7)
17 German car is not beaten in performance trials (9)
18 Gets up, but it involves a scramble (8)
19 A little bit of heaven (7)
21 The last place a Buddhist wants to go (7)
22 Journey to the game (6)
24 Fruit of the melon variety (5)
26 A state of pure chaos (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday February 17.

JOTTER PAD

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS—Contd

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,688.1	ANZ SA1	287	44c	7.4	8.1	Feb July	1698
2,489.0	Abbey National 10p	196	L7.7	5.4	–	Apr Oct	5411
1,464.6	Allied Irish Ord.	265	m068%	3.0	27.11	Dec July	1354
1,304.1	Algemene Fl.10	£22¾	Q28%	7.2	2.5	Aug May	1567
29.1	Anglo Irish	73	Q18.7%	6.0	27.11	Jan Aug	1355
140.0	Ansbacher (H.) 1p.	75	2.0	3.6	13.3	April	1624
1,036.8	Bancaire Cie Fr100	£48¾	[illegible]	2.2	9.5	May Mar	2202
4,791.4	Banco Bilbao Viz.	£39½	Q35.7%	3.4	9.12	Dec June	–
3,136.0	Banco de Santander	£27¼	Q21%	2.9	11.10	Apr Oct	–
915.0	Bank Ireland Ir£1	274	[illegible]	4.3	27.11	July Dec	1360
134.4	Bank Leumi	£19½	–	–	–	–	1740
23.6	Bank Leumi (U.K.)	345	†13.5	5.2	31.7	Apr Sep	1740
893.7	Bank Scotland	128½	†3.8	4.3	2.10	Nov June	1742
97.3	Do. 9¾pc Irrd Pf.	97¼	9¾%	12.7	30.10	May Nov	1462
17.3	Bank of Wales	54	2.8	6.9	2.10	Nov Jun	1743
[illegible]	Barclays £1	596	†23.0	5.2	14.8	Oct Apr	1754
10.7	Benchmark 20p	28	1.63	10.6	18.9	May Oct	1802
50.9	Brown Shipley £1	319	†10.5	4.4	27.11	Jan Aug	1983
78.7	Cater Allen £1	415	23.5	7.6	27.11	Jan. July	2081
35.4	Chancery	174	†8.0	6.1	27.11	Jan July	2102
308.0	Commerzbk DM10	£22½	Q18%	2.9	27.5	May	1046
351.9	C'hgn.Hbk.Kr100	£26¾	[illegible]	5.2	22.3	March	2237
32,086.0	Dai Ichi KBk Y50	£12¼	†Q16%	0.3	4.7	June	3221
[illegible]	Deutsche Bk DM50	£297¾	Q24%	1.4	11.5	May	2345
139.7	Espirito Santo	£29¾	Q75c	2.3	–	June	5187
359.6	First Nat. Fin. 10p	228	13.0	7.6	15.1	Mar Aug	2571
56.2	FNFC 6.3pc CnRedPref	114	6.3%	7.2	27.12	July	2570
37,129.9	Fuji Bank Y50	£14¼	Q15.6%	0.2	4.7	Dec June	1084
107.1	Gerrard & National	281	18.5	8.8	30.10	June Dec.	2686
99.8	Guinness Mahon 10p	154	2.1	1.8	27.12	Jun Feb	5074
468.6	Hambros 20p	289	†10.0	4.6	11.12	Jan Sep	2812
175.5	Do. 7.5pc Cv Pf.	117	7½%	8.5	14.8	Apr Oct	4388
1,257	HK & Shang. HK$2.50	56	HQ36c	5.2	17.4	May Sep	–

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

MOTORS, AIRCRAFT TRADES

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
325.6	DAF N.V. Fl1.5	£11½	H02.5	6.2	–	–	4773
–	General Mtrs Units	124	Q2½%	6.1	3.1	Mr Jn Sp D	2678
1,553.0	Jaguar	849	411.0	1.7	18.9	May Nov	3019
8.95	March Group 5p	40	0.64		15.8	Sept Apr	3284
4,842.9	Volkswagen DM50	£281¼	Q20%	1.7	–	July	–
2,184.5	Volvo Kr25	£41¾	Q56%	3.2	27.4	May	4410

Commercial Vehicles

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
22.6	ERF (Hldgs)	233	15.0	8.6	27.12	Jan Aug	2397
64.7	Plaxton Grp	178	H8.5	6.6	27.6	Dec Jan	3675

Components

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
6.40	Abbey Panels	420	3.5	1.1	15.1	Sept Feb	1501
19.2	Airflow Streamlines	225	6.0	3.6	30.10	Jan July	1598
	For BTS see Industrials						
21.3	Bostrom 5p	185	15.1	3.7	2.10	May Nov	1438
542.5	Dowty 50p	224	18.0	4.8	27.12	Mar Oct	2371
140.5	FR Group	198	15.54	3.9	30.10	Dec. July	2627
185.0	Kwik-Fit Hldgs. 10p	115	2.4	2.8	2.10	Nov May	3113
1,064.2	Lucas Inds. £1	626	25.0	5.3	30.10	Jan Jan	3232
4.24	Spice 5p	18	g1.2		4.7	August	4075

Garages and Distributors

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
10.6	Alexanders 10p	27	1.0	4.9	15.1	March	1562
58.0	Appleyard 10p	124	16.6	7.2	4.9	Oct Apr	1629
[illegible]							

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
20.9	Abtrust New Dawn	139	–	–	5.10	–	4601
2.88	Do. Warrts	96	–	–	–	–	4600
2.10	Do. B Warrants	70	–	–		–	1291
[illegible]							

TRUSTS, FINANCE, LAND—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
19.1	Do. Cum Ptg Pref	127½	N9.8	10.2	30.10	May Nov	–
249.3	Scot. Am Inv	111½	13.3	3.9	27.11	Ja Apr Jly Oct	3945
16.8	Scot. Cities 'A'	623	24.0	5.1	27.11	May Dec.	3947
373.8	Scot. East. Inv	177	N3.45	2.6	4.9	Oct May	3948
414.3	Scottish Inv	163	3.68	3.0	27.12	Feb July	3953
20.8	Do Warrants	41	–	–	–	–	6003
21.8	Scot & Merc 'A' 5p	91	‡4.1		27.11	Jan Jul	3956
494.2	Scot. Mort. & Tst.	137	†2.8	2.7	30.10	July Dec.	5004
[illegible]							

Finance, Land, etc

[illegible]

OIL AND GAS—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
186.1	Moncrieff Oil 5p	38¼	–	–	–	–	3406
11.0	New London 5p	18½	–	–	–	–	5480
–	NZ Oil & Gas NZ$0.50	27	–	–	–	–	–
3,517.4	Norsk Hydro Kr20	£17¼	Q18¼%	2.0	29.4	June	3514
13.0	North Sea Assets 5p	24	–	–	11.85	–	3528
3,446.6	Occidental Pet. 20c.	£15½	Q$2.50	8.9	6.9	Ja Ap Jy Oc	–
–	Ohio Res.	28	–	–	–	–	–
12.3	Oliver Res.	28½	–	–	–	–	1469
[illegible]							

OIL AND GAS

[illegible]

WATER

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
1.34	Tanjong 15p	9	–	–	6'81	–	–

Miscellaneous

[illegible]

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]							
2.14	Swanyard Studios 1p	1½	–	–	–	–	4666
0.37	Systems Connection 2½p	3	–	–	–	–	5152
8.95	Tavern Leis. 20p	35	–	–	–	–	4867
9.97	Tomorrows Leisure 20p	69	–	–	–	–	4248
1.41	UPL Group 10p	35	‡2.75		22.5	Dec. July	4362
7.17	Unit Group	135	5.0	4.9	11.12	Jun Aug	4357
7.83	Video Magic Leis. 1p	89	W2.0	3.0	26.1	Jan July	5071
4.08	Vista Ents 5p	4¼	–	–	–	–	3994
9.63	Vizcaya Hldgs 5p	18	–	–	–	–	4193
63.1	Whitegate Leisure 20p	40½	0.25	0.8	–	April	1105
1.79	Do. Wrrnts	28	–	–	–	–	1116
20.1	Wilton Group 1p	4½	–	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs ☆☆ Yield based on *assumption Treasury Bill Rate stays unchanged until maturity of* stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+/-
Albany Inv 20p	85	......
Craig & Rose £1	830	......
Finlay Pkg. 5p	58	+2
Holt (Jos) 25p	1340	-8

IRISH

Stock	Price	+/-
Cap. 8½% Ln. 1991	£96⅝	......
9pc Cap Ln. 1996	£95¼	-¼
Fin. 13% 97/02	£113¼	-¼
Arnotts	410	......
Carrol (P.J.)	156	-1
Hall (R. & H.)	190	......
Heiton Hldgs	100	......
IRG	208	......
United Drug	160xd	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	3½
BAT	67
BOC Grp	44
BTR	37
Barclays	40
Blue Circle	20
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	21
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	20
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	25
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Stock	p
Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Stock	p
Brit Petroleum	25
Burmah Oil	65
Charterhall	2½
Conroy Petlm	9
Premier	10½
Shell	37
Tuskar Res	12
Ultramar	28½

Mines

Stock	p
Lonrho	23
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

4pm prices Febuary 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	24¾	AAR	.48	1.5	19	368	[illegible]	31½	31½	– ⅛
9¾	8½	ACM n	1.01	11.		843	9½	9¼	9½	+ ⅛
11⅝	10½	ACMIn	1.26	11.		719	11⅛	11⅛	11⅛	
9⅞	8	ACM M	n1.01	12.		887	8⅞	8½	8⅝	+ ⅛
12⅜	12	ACMMM				109	12⅛	12	12⅛	
11½	[illegible]	ACM Sc	1.26	11.		1169	11⅛	10⅞	11	
9⅝	8⅛	ACMSp	1.01	11.		784	9⅜	9⅛	9¼	
19⅝	11½	AL Lab	.16	.9	19	41	18⅛	17⅝	18⅛	+ ¼
4⅛	3¼	AMCA	.12e	3.6	8	213	3½	3⅜	3⅜	
8⅛	3⅜	AM Intl			8	332	3⅝	3⅝	3⅝	
23½	16⅝	AM In pf	2	12.		25	17⅜	17	17¼	+ ⅛
107¼	62½	AMR			7	3666	54⅝	53⅜	53⅜	– 1⅛
27	25	ANR pf	2.67	10.		3	26½	26	26	
24⅞	23⅛	ANR pf	2.12	8.7		4	24¼	24¼	24¼	– ⅛
5½	3⅛	ARX				30	3½	3⅜	3⅜	
68½	39	ASA	3a	4.4		3547	u70	66⅞	68¼	+ 2⅛
70⅝	48⅛	AbtLab	1.40	2.1	17	3730	66	65	65¼	+ ½
16¼	11¼	Abitibi g	.50			63	12⅞	12⅛	12⅛	+ ⅜
13	9¼	AcmeC	.40	4.0	11	77	10	9⅞	10	+ ⅛
9⅛	6	AcmeE	.32	3.6	11	6	8⅞	8⅞	8⅞	
38½	24¼	Acuson			19	844	28⅛	28¼	28⅜	– ⅜
16½	12⅞	AdaEx	2.06e	14.		52	15½	15¼	15¼	– ¼
15⅝	6⅞	Adobe				121	13½	13⅛	13½	+ ¼
20¼	16⅞	Adob pf	1.84	9.6		11	19¼	19	19¼	+ ⅛
21⅝	19⅞	Adob pf	2.40	11.		12	21¼	21	21¼	+ ¼
10½	7⅜	AMD			5	2377	7¼	d 7	7⅛	– ⅛
35	28⅜	AMD pf	3	11.		80	29	28½	28½	+ ⅛
10⅛	6⅛	Advest	.16	2.4	9	166	6⅞	6½	6⅝	+ ⅛
62½	48⅛	AetnLf	2.76	5.5	8	2367	50⅜	49⅝	50	+ ½
14	9⅞	AflPb	.24	2.2		2599	10⅞	10⅝	10⅞	+ ¼
25	16⅛	Ahmans	.88	4.9	9	809	18	17½	18	+ ½
3⅞	2⅛	Aileen				60	2¼	2⅛	2¼	

[illegible]

Continued on Page 31

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
5¼	4⅝	RepGyp	.20	4.0	36	24	5	5	5	
52¾	42¾	RepNY	1.32	2.8	1156	1297	46⅛	45½	46⅛	+ ⅞
14⅛	1⅞	Rexene			1	636	2⅞	2	2⅞	+ ⅜
33⅞	19½	RayRay	.80	4.1	8	107	19⅞	19⅝	19⅝	− ⅛
62¼	48½	Raythn	1.88	3.4	8	1162	52⅞	52½	52½	
48½	35	RhP pfC				209	37¼	37	37¼	
19	16⅞	RhP pfA				3	17⅛	17⅛	17⅛	
3½	1⅞	RhoP wt				75	2⅞	2⅝	2⅞	+ ⅜
22	16⅝	RimPt n				32	19½	18¾	18⅞	− ⅛
41⅛	29½	RiteAid	.86	2.8	13	1375	31½	31⅛	31⅜	+ ¼
7-16	⅛	RvrOak				42	3-16	5-32	3-16	+ 1-32
12¾	8⅞	Robbins				47	10⅛	10	10⅛	+ ⅛
22⅛	17	RochG	1.66	7.8	10	76	20⅞	20⅛	20⅞	
45¼	27⅞	RochTl	s1.46	4.2	16	638	35½	32⅞	34½	+ 2
22¼	18½	RckCtr	1.88	9.4	16	217	20	19⅞	20	+ ⅛
27⅛	19⅝	Rockwl	.76	3.5	8	873	22⅞	22⅛	22⅛	
7⅝	4⅞	RodRen				21	5⅞	5¾	5⅞	+ ⅛
37½	29⅝	RoHaas	1.20	3.9	12	257	30⅞	30⅛	30½	+ ¼
37⅞	18½	Rohr			22	393	18¾	18½	18⅝	+ ⅛
14⅛	9⅝	RollnsE	.06	.6		3137	13½	12⅞	13⅛	+ ⅜
21	16⅞	Rollins	.56	3.2	18	180	17⅝	17⅛	17½	+ ⅛
10⅛	7½	RolTrk	.20b	2.7	6	118	7½	7⅛	7⅛	+ ⅛
64⅝	56⅛	Rorer	.84	1.4	23	4665	61⅝	60⅞	61½	+ ⅜
12	6⅞	Rowan				4036	11½	10⅜	11⅛	+ ⅜
25⅛	23¼	RSScr	pr.71e	2.9		210	24⅛	24⅛	24⅛	− ⅛
78⅛	57⅞	RoylD	3.38e	4.4	7	5175	77¼	76⅞	77⅛	
18	6½	Roylnt	.20a	2.2	12	291	9¼	9⅛	9⅛	
10	8⅛	Royce	.52e	5.9		113	8⅞	8⅝	8⅞	
37⅛	25⅛	Rubmd	.52	1.6	22	916	32⅞	32⅛	32½	
21¼	14⅛	RussBr	.40	2.6	18	1197	15¼	15⅛	15¼	+ ⅛
15	9⅛	RussTg	.20	2.0	200	5	10	10	10	
26½	18⅞	Russell	.32	1.3	16	47	24⅞	24½	24⅞	− ⅛
31⅛	18⅛	Ryder	.60	3.3	20	1402	18½	18¼	18⅜	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMEX COMPOSITE PRICES

4pm prices February 2

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NASDAQ NATIONAL MARKET

4pm prices February 2

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The Business Column

Where the fear of cannibals rules

Companies hungry for new markets could be forgiven for seeking the juiciest flesh into which to sink the corporate fangs. That means looking for the most mouth-watering margins, typically high-value, low-volume sectors where scale is small and the risks of entry are correspondingly low.

In the search for flesh, however, an alternative strategy is possible: cannibalism. The approach is summarised in a recent article by two McKinsey consultants*. The authors are not suggesting that executives eat their own flesh, or even their cabin boys'. Rather, they point out the advantages of entering market segments in which competitors cannot respond for fear of cannibalising their core businesses.

The most attractive sectors for this approach are those where businesses are using profits from one market segment to subsidise those in another.

Such subsidies have been common in the financial services business. Banks have often used hefty margins on deposits or personal loans to subsidise commercial loans. For many years full service stockbrokers in the United States charged their small customers hefty commissions, to offset the increasingly slender margins on their business with larger customers. In another service business, telecoms, MCI was able to enter the US long-distance market, because at the time AT&T was using profits from this sector to subsidise local phone calls.

History's lessons

As these examples suggest, businesses which have until recently been tightly regulated often have historical legacies of cross-subsidy which cannot easily be unwound by the existing participants. Their cost structures and corporate cultures predispose them towards the existing pattern of subsidy. Indeed, in some cases managers will often have been brought up to believe that the cross-subsidy is an important social benefit, one which the company exists in part to preserve.

One way of hunting for new markets worldwide is thus to spend some time looking for cross-subsidies – whatever their original cause or rationale – then moving quickly to exploit them. "The key to success," say the McKinsey authors, "is to identify situations where the cannibalisation will be so expensive for existing players that they cannot react until the new entrant has already developed a strong position."

Cross-subsidies are not the only opportunity for exploiting companies' distaste for cannibalism, however. Indeed, any business where high-margin and low-margin segments co-exist provides an opportunity of this sort. Two more examples:

- American carmakers were reluctant to manufacture small cars like those made by European and Japanese importers, partly because this segment of the market has lower margins.
- Sony has been able to create a strong position in professional broadcasting equipment from scratch, by starting with low-tech products based on consumer electronics, and progressively moving up in technology and price.

Starting low

As these stories imply, the cannibalism theory explains why Japanese competitors have so often been successful in starting at the low end of a market, where established companies – unwilling to cannibalise their high-margin business at higher price points – are often unenthusiastic competitors. The new entrants have been able to establish a firm beach-head, then move higher up the price range, where margins are juicier.

The lesson for would-be global competitors is not just that today's despised bottom-of-the-range entrant may be tomorrow's rival in premium markets. It is also that an attempt to enter overseas markets by going for high-margin niches is inherently more vulnerable to counter-attack by established competitors than an approach which starts in a part of the business where the fear of cannibalism prevails.

Peter Martin

**Signposts for global strategy, Joel Bleeke and Brian Johnson, McKinsey Quarterly, Autumn 1989*

MONDAY INTERVIEW

Freeing the phone networks

Sir Bryan Carsberg, Britain's Director-General of Telecommunications, speaks to Hugo Dixon

"THE PLAYING field is more complicated in telecommunications than in football. It is a multi-dimensional field that can be tilted in many different ways."

Sir Bryan Carsberg, Director-General of Telecommunications, is the man who was given the job of tilting the field to ensure fair play when British Telecom was privatised five years ago. He is the first of a breed of regulators appointed by the Government to act as watchdogs over the newly-privatised utilities.

During the post-privatisation period, Sir Bryan has cultivated an image as the champion of consumer interests. He has put in place a formula which requires BT to reduce its prices by 4½ per cent in real terms each year and has told BT to compensate customers if it fails to install or repair telephone lines on time.

At the same time, he has been a great advocate of competition, believing that this will provide consumers with extra choice and give BT the best incentive to improve the quality of its service. Accordingly, he has forced BT to open its network to Mercury Communications, its smaller rival, in order to allow Mercury to get access to BT customers.

The policies adopted by Sir Bryan and the Office of Telecommunications (Oftel), which he heads, have had considerable success, most notably in promoting vigorous markets in telecommunications equipment, mobile communications and value-added data services. He has found it more difficult to crack BT's monopoly on the basic phone service, in which it still has a market share of over 95 per cent.

Never the less, while Sir Bryan is highly regarded as an effective regulator, there are some doubts about how he fulfils that role.

There is a constitutional concern that he has an immense amount of power over a vital sector of the economy but is not properly accountable to anybody.

Sir Bryan's initial response to this is that his independence from Government is one of the virtues of the British system of regulation, not a vice. It means that day-to-day political calculations do not interfere with important long-term decisions on regulation. "We don't want [phone] prices held down because an election is coming up," he says.

Sir Bryan then goes on to challenge the description of himself as an all-powerful mandarin: There are "very real limits to my power."

He points out that he is answerable to Parliament, although in the five and a half years that he has being doing the job he has only once been called up before a select committee. He argues that his decisions can be challenged in court if people feel that he has exceeded his powers.

A civil action was brought for the first time in 1989 when Computerdial, a supplier of interactive telephone services, argued that Sir Bryan had followed the wrong procedure in imposing a tough code of conduct on the industry. Computerdial and Oftel now expect to settle this dispute in an amicable manner.

PERSONAL FILE

- **1938** Born, London
- **1960-64** Accountant in private practice
- **1969** Professor of Accounting, University of Manchester
- **1974** Visiting professor, University of California (Berkeley)
- **1981** Arthur Andersen Professor of Accounting, LSE
- **1982** Advised Secretary of State for Industry on telecommunications liberalisation
- **1984** Appointed first Director-General of Telecommunications
- **1987** Re-appointed D-G
- **1989** Knighted

Finally, says Sir Bryan, "it seems to me that I am accountable to the public through the media. If someone in my position took a decision at variance with public opinion, there would be a storm about it and I would be under heavy pressure to change tack."

Despite Sir Bryan's willingness to consult and to listen to suggestions, it is difficult for outsiders to check whether Oftel is doing its regulatory job properly because they do not have access to the detailed financial information on which the regulatory body bases most of its decisions.

Nobody, for example, is in a position to challenge whether Sir Bryan's formula requiring BT to cut its prices by 4½ per cent each year is too lax, too tight or just right. In this respect, the British system of regulation differs considerably from the American system, where huge amounts of information are published and politicians and lobbyists constantly make use of it to challenge regulators' decisions.

Sir Bryan says he has a policy of justifying in a general way his reasons for a particular decision but does not give detailed figures. He admits that this means that nobody would able to challenge him on a matter of fine-tuning – for example, if it were just a question of a 10 to 20 per cent difference in opinion – but argues that people would be able to complain if they "felt something outrageous were happening."

He points out that he does not have a free hand when it comes to divulging information about BT, because he has a duty to respect the company's confidentiality.

"I can disclose information for the purpose of my regulatory functions, but not just because it is of interest. Putting information into the public domain is going to help the competition and, in that sense, it is going to be to the detriment of BT." But why should Sir Bryan, as somebody who favours competition, be worried about helping BT's competitors? His answer is that revealing private information is not the right way to help competitors.

Well, what about the argument that more information should be divulged in order to help outsiders check that Oftel was doing its job properly? "I cannot say it is essential to put information into the public domain to second-guess my decisions," he replies.

Ashley Ashwood

"I can disclose information, but not just because it is of interest"

Another concern about Sir Bryan's period as Director-General of Oftel is that he has artificially hindered BT in an attempt to inject competition into parts of the telecommunications market where it would not naturally develop if market forces operated freely.

This has been most apparent in Sir Bryan's policies to promote competition for the basic phone service. At the national level, Sir Bryan's favourite vehicle for providing this competition is Mercury; at the local level it is the cable television companies.

His policy has sometimes involved holding BT back in order to let competition flourish. But some wonder whether this is wise, given that Mercury and the cable companies have been slow to take off.

"I've never been simplistic about competition," is Sir Bryan's answer. "The extent of competition worth having is a cost-benefit question."

The chief benefits of competition are an increase in consumer choice and an incentive for efficiency; the main cost is a loss of economies of scale because networks are duplicated.

"If that [the loss of economies of scale] is not too big, the benefits will outweigh it," Sir Bryan says. Competition, he claims, has already caused BT to pay more attention to getting prices down, serving its customers and modernising its network.

But he points out that BT's established nationwide network gives it such an in-built advantage that competition would not develop unless Oftel took steps to favour the new players. This is why Mercury does not have to provide a universal nationwide service nor subsidise loss-making rural operations – a requirement that is written into BT's licence.

BT complains that such an asymmetry in regulation allows Mercury to "cream-skim" its most attractive business customers. This is exacerbated by the fact that BT is not allowed to respond by cutting the tariffs it offers to selective customers who are in danger of being poached by Mercury.

Sir Bryan explains that it is unacceptable for BT to cut prices for only those customers who are able to switch to Mercury. If BT wants to respond to the competitive threat, it should reduce charges for all customers of a similar size whether they can get access to Mercury or not.

He makes clear, though, that Mercury will have to bear its share of the social obligations when it becomes more established as an operator. That time, he says, is rapidly approaching.

Oftel has taken a similar line with the cable TV companies. BT complains that it is unable to transmit television pictures over its network, but that the cable TV companies are free to offer telephone services – with restrictions – over their networks.

Sir Bryan justifies the asymmetry in this way: "What we are doing is giving the others a bit of a time advantage, a head start."

And he argues that it is not a forlorn hope to be to trying to encourage local competition to BT. Some commentators believe that it will never pay to put two cables into each home in the country, but all that is necessary for a healthy market is to have two trunks going down each street. Customers would then be free to choose either one or the other.

Nevertheless, Sir Bryan makes clear that the ban on BT using its network for TV is not perpetual, since it will soon make economic sense to integrate telecommunications and TV traffic on the same cable. He holds out the hope that BT will be given this freedom in a staggered way – in different parts of the country at different times.

"It wouldn't be right to prohibit BT altogether," he says. After all, "we want to keep BT in the local telephone market."

The final decision on this and other matters, though, will have to wait until after November 1990, when the Government embarks on a major review of telecommunications policy.

Football's lack of commercial sense

JUSTINIAN

Sir Peter Taylor's final report on the Hillsborough stadium disaster is, as one would expect from a Lord Justice of Appeal, a devastating analysis of the malaise in football. It is altogether less compelling in its prescription for curing the ills of the sport. Perhaps judges are no better than ministers and civil servants at gauging what are the right remedies for social problems.

Overcrowding on the terraces at Hillsborough was the immediate, primary cause of the disaster. But the fatal crush of so many human beings behind a rigid wire fence also represented the bad administration of those who organise and manage Britain's national sport.

The police took the brunt of the criticism – justifiably so, according to the interim report. Now blame is properly laid at the door of the administrators. Part of the problem has been that crowd control on the private premises of football clubs has not been fully recognised as an aspect of public order. Until now Governments have not insisted that the police should be in sole command at the ground instead of being lawful interveners on private property in a game controlled by private ownership under limited public regulation.

Most of the big football grounds were built in centres of dense urban population at the end of the last century when few supporters of the local team travelled to away matches. Transport for those who did attend presented few problems. What additional spectator accommodation has been provided over the years has rarely been accompanied by adequate ancillary facilities such as toilets and places of refreshment. Safety and comfort have come behind the interests of the game on the field. All this is chronicled in the report.

Sir Peter makes a wistful allusion to what used to happen on the pitch in bygone days. He regrets that the unostentatious and decorous behaviour of the Corinthian Casuals has been replaced by the over-enthusiasm that now invariably envelops the goal-scorer.

But what is too often forgotten is that the days of amateurism in soccer – and Sir Peter might have mentioned the more recent successes of that other Oxbridge product of the 1950s, Pegasus – were matched by appalling attitudes to the conditions in which professionals played. We are only 30 years away from the time when players were made to suffer under the maximum wage system. Footballers were paid a pittance in comparison to their entertainment value. The law finally came to the players' rescue in 1959 by declaring that such contracts were unlawful.

It is the commercialism of the sport that has consistently called in vain for high quality management. Commentators on the football scene would have been better advised to focus on the financial administration of the sport itself rather than on the cuddling habits of the players, which do no harm beyond evoking a *frisson* in supporters and causing a cold shiver among the opposing team and fans, including perhaps a judge on his day off from court.

The prime remedy for the future is to impose all seated accommodation. This will be costly but it is the best hope for safety, comfort and good order where large numbers of people congregate. It is, however, too much of a blanket remedy. Smaller clubs, which attract fewer than 5,000 fans well spread out in the stadium, should not have to put in seats if they do not want them.

The really pressing problems for the policing of football crowds have shifted away from the grounds themselves to the access to them. A colour photograph of the Stadion Galgenwaard in Utrecht, included in an appendix to Sir Peter's report, shows how a ground ought to be arranged. The stadium, which is owned by the local authority, stands in parkland with ample car parking facilities. Space underneath the stands and in corners of the ground provides accommodation for commercial use. The rest provides the local authority with sports accommodation which pays for itself.

Hillsborough itself is destined for closure. It would be a fitting end for an unhappy episode if Sheffield Wednesday Football Club found a new home at the edge of the town. Other clubs might join other local authorities in a similar enterprise.

The report has much to say about handling small bands of football disruptors both at and in the approaches to the ground. To label these elements as hooligans is unhelpful. The street rowdy is an aspect of industrialised society and not a product of football alone, although disorder connected with the sport is common. Resorting to criminal justice will not solve the problem of anti-social behaviour. Indeed, Sir Peter's own analysis – that civilised conditions at football grounds will evoke a civilised response from those who benefit from them – demonstrates a better understanding of the issue. Compelled to use degraded facilities, people tend to to behave disruptively.

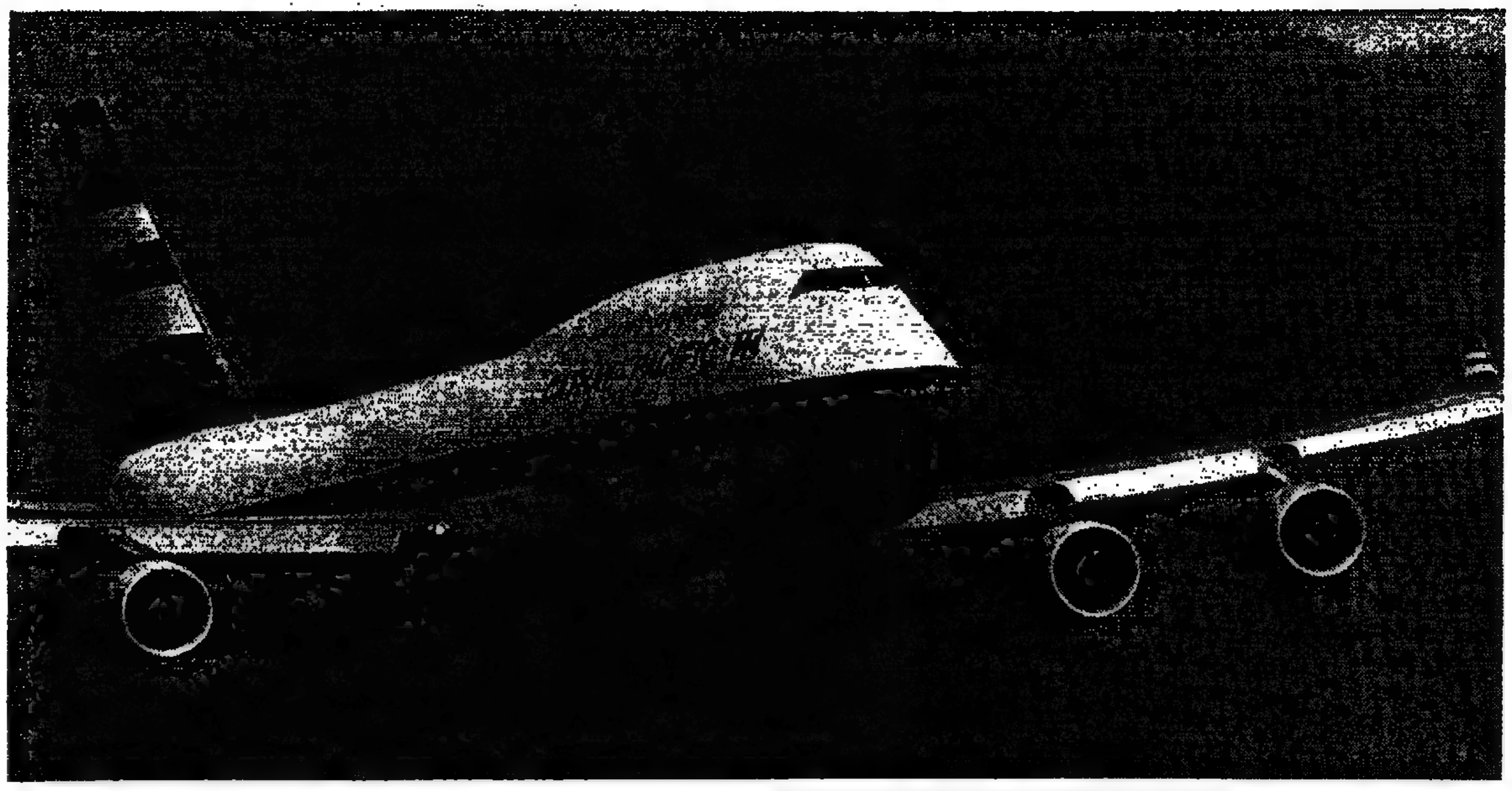
The recommendation that electronic tagging be considered when sentencing football offenders is not sensible. Sir Peter says that if the social experiments now being undertaken by the Home Office enable tagging to be extended to sentenced offenders, the measure would be a "most useful and effective way of ordering convicted hooligans, excluded from grounds, to remain at home during designated matches. Their obedience . . . . would be monitored without excessive resource requirements." Those who do not favour this technological equivalent of the stocks will be comforted to know that the experiments are already failing.

SECTION III

FINANCIAL TIMES SURVEY

Thriving economies and a middle-class population with an increasing urge to travel have brought sustained growth in air transport to Asia-Pacific. As Paul Betts reports, the area holds the biggest promise of economic opportunity for the industry in the decade to come

The year of Asia's dragons



South-east Asian carriers have reported strong growth, a trend driven by the region's expanding economies coupled with the rise of international tourism

Asian & Pacific Aviation

IT WAS no accident that the International Air Transport Association (Iata) picked at its annual meeting in Warsaw last October a representative from the Asia-Pacific region as the new president of the organisation grouping 187 airlines.

By appointing Mr Moehamad Soeparno, the head of Indonesia's Garuda airline, president of Iata for the current year, the world's airlines were saying that 1990 would be the year of Dragon after 1989 had been the year of *perestroika* with Aeroflot joining the Iata fold and Eastern Europe opening up.

Both Eastern Europe and the Asia-Pacific region are now seen as offering significant growth prospects for air transport and for the international aerospace industry. But the Asia-Pacific area clearly holds by far the biggest and most tangible promise of economic opportunity for the world airline and aerospace industries in the decade to come.

Thriving economies and a burgeoning middle-class population with a growing urge to travel inside and outside the region have brought sustained annual growth in air travel in Asia-Pacific of more than 10 per cent during the past 20 years. More recently, passenger air traffic has risen even more sharply to around 20 per cent in some areas like Japan, Singapore, Hong Kong and Thailand.

This growth has been and continues to be driven essentially by the expanding economies and ambitions of many countries throughout the region coupled with the rise of both regional and international tourism.

In a recent study of the region, Iata noted that the number of Japanese overseas travellers is expected to double from 5.52m in 1986 to 10m by next year and that in 1988 alone 23 per cent more Japanese travelled abroad. The study added that the relaxation of travel restrictions in Taiwan and South Korea had also led to waves of outbound tourists from the region.

Even allowing for some possible economic slowdowns in some countries, growth is expected to continue throughout the decade. Airline organisations and aircraft manufacturers are forecasting a doubling in passenger traffic by the end of the decade.

Scheduled air passenger traffic to, from and through the region already accounts for about 18 per cent of total world passenger air traffic of about 1bn a year. By the end of the century, it is expected to rise to nearly 25 per cent of the estimated 2bn passengers who will be travelling by air in 2000.

Growth is expected both within the region – Asia is fast developing its own internal air travel market with more and more local business people turning to regional air travel and political change opening up new regional markets like Vietnam – as well as on international routes to Europe or North America. Indeed, North America is increasingly regarded by Far East and Asian carriers as offering the biggest long term economic opportunities. Some airlines are now predicting that traffic across the Pacific will quadruple during the current decade.

This growth has become the motor behind a series of significant developments for airlines and aerospace manufacturers alike. With it, however, have also emerged a string of problems ranging from growing congestion at some key airports as well as in the region's air traffic control system, to the impact of competition, rising labour costs and more expensive bank borrowings on airline profit margins; not to mention the repercussions of strikes, accidents and political unrest on the operations of some airlines in the region. Australian carriers, for example, have been hit by a bitter and prolonged domestic pilots dispute.

This month's Singapore Air Show, which has fast become the world's third most important aerospace and aviation industry show after Paris and Farnborough, is expected to highlight the main trends emerging in the region's fast growing aviation sector. The most significant include:

■ The way growth in long distance air travel to and from the region is turning into a driving force behind the development of a new generation of bigger long-range jet airlines. Boeing, which is expected to launch soon the $4bn development programme for a new wide-body twin engine jetliner, the 777, believes that between now and 2005, out of the $516bn that will be spent on new jets, the countries of the Asia-Pacific area will account for about 26 per cent of the total.

The airlines of the region are planning to more than double their current fleets by buying more than 200 new aircraft with less than 300 seats, and another 200 aircraft with more than 300 seats. Singapore Airlines recently announced a $8.6bn order for 50 US jetliners, while Quantas of Australia plans to spend $4.7bn to nearly double its fleet over the next four years.

The West's three leading commercial aircraft manufacturers – Boeing and McDonnell Douglas in the US and the Airbus consortium in Europe – are all vying for a large share of the new market for long distance non-stop air travel from the region. But there is also a growing market for smaller regional jets and turbo-propeller aircraft in the area to serve expanding regional airline markets.

British Aerospace, for example, claims the market for smaller regional airliners shows "equally impressive potential" as the market for bigger jetliners. It predicts that the overall turbo-prop fleet in the region will increase from the current 480 aircraft to about 785 aircraft in 2005. It also sees an attractive market for 100 seat regional jets like its BAe 146.

■ The boom in the region's airline business has coincided with an increasing interest on the part of south-east Asian countries to develop aerospace manufacturing and engineering industries of their own. Japan, in particular, has already expressed ambitions to become a big player in the industry. Japanese companies are now negotiating becoming risk-sharing partners in Boeing's 777 programme while another Japanese group is considering joining General Electric as a risk-sharing partner in the US company's recently unveiled programme to develop the world's largest commercial jet engine, the GE90, to power the new generation of long distance jetliners.

Japan has also been actively promoting international co-operation in supersonic jet engine technology as part of its efforts to play a significant role in the eventual development of a second generation commercial supersonic aircraft to replace Concorde sometime after 2000.

Other countries in the area have also actively sought to develop an aerospace industry of their own. This is the case of Indonesia and China which is now co-operating with McDonnell Douglas in the assembly of commercial jetliners.

■ Fast growing airlines in the area are adopting global strategies in seeking to establish partnerships with other carriers inside and outside the region. The prime example is Singapore Airline's cross-shareholding agreements with Swissair and Delta of the US to create, in the company's words, a "truly global system".

Quantas has taken a 20 per cent stake in Air New Zealand with Japan Airlines and American Airlines also investing in a 7.5 per cent stake each in the New Zealand carrier. Thai continues to have close relations with SAS, while other regional carriers have sought to forge specific partnerships with other European or American carriers.

These moves reflect the efforts of south-east Asian airlines to boost their overall competitiveness. Not only are Asian carriers finding that their net margins and costs are beginning to come more in line with their European or US competitors, but many well established regional carriers are starting to face fiercer local competition.

Taiwan's flag carrier, China Airlines, is already bracing itself to face new competition from the country's start-up airline, Evergreen Airways, which plans to begin international services next year and has already placed a big order for aircraft. Korean Airlines is also now facing competition on international routes from Asiana, the domestic South Korean carrier which has just started its first international service between Seoul and Tokyo.

■ While regional airlines jostle to increase their market share, some of the area's leading airports are competing to become dominant hubs. In south-east Asia, Singapore and Bangkok are both investing heavily to achieve such ambitious aims. Indonesia is also anxious to develop hubs around Jakarta and Bali, while Hong Kong has launched a big airport investment programme.

All these multi-million dollar investment programmes also reflect the growing concern over the impact airport and airspace congestion could have on the future growth of air transport in south-east Asia and the Pacific region.

Iata sounded the warning clearly at its regional conference in Bangkok last September. It said the encouraging prospects for air transport in the region could be upset by two factors.

The first was a general economic downturn. The second was the ability of the region's air transport infrastructure to cope with the expanding volume of traffic.

"However, the airlines have little control over economic swings, but it is essential to mobilise action to ensure that airport and airspace congestion are not allowed to prevent the growth of air transport," it concluded.

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Editorial production: Khozem Merchant
Pictures: Glyn Genin

Michael Donne on the problems likely to arise ahead of another decade of regional growth

Lack of funds ground big expansion plans

WHILE overall the outlook for commercial aviation in the vast Asia-Pacific region, including the Far East, South-east Asia and Australasia, remains bright, with a current growth rate of around 20 per cent a year in both passengers and cargo and between 15 per cent and 18 per cent in aircraft movements, significant problems are emerging.

They include serious capacity constraints leading to congestion at some of the region's big airports, especially in Japan, Hong Kong and Australasia, along with severe congestion on some long-haul air routes, especially on the international routes across India linking Europe with the Far East.

On many other routes there is a need for substantially improved "airspace management" techniques, including better air traffic control and air navigation facilities.

Indeed the future expansion of the Asia-Pacific market is expected to give rise to many of the problems already being experienced in the congested western Europe and North American regions, unless substantial remedial action is taken soon.

Attempts to co-ordinate this action is taken by the International Air Transport Association (IATA), in the belief that while the air transport industry has little control over the economic situation, it can mobilise action to ensure that airport and airspace congestion are not allowed to prevent the smooth expansion of air transport throughout the region.

At the first Asia-Pacific Regional Conference in Bangkok last September, IATA identified many of the problems. It recognised the willingness of many of the countries in the region to correct them, but at the same time stressed the need for more sustained efforts in some countries to achieve the changes in the air transport infrastructure needed throughout the next decade.

IATA's own industry-wide Task Force, set up to study airport and airspace congestion and other problems, has been closely following the situation in the Asia-Pacific region, and believes that growth can be kept under control if the governments and administrations are made fully aware of the problems and work with the airlines to keep all kinds of aviation facilities and services compatible with increasing traffic demand.

The expansion of the market is expected to give rise to many of the problems already being experienced in the congested European sector

This will mean significantly increased investments in new airports. Already several ventures are either under way or planned – for example, at Changi Airport, Singapore, where a $540m second terminal is well advanced, and in Japan, where Kansai airport on reclaimed land in Osaka Bay is also under way, and in Tokyo Bay, where a $5.6bn expansion of Haneda, also on reclaimed land in Tokyo Bay, is making progress too.

But throughout the region it is clear that while many other big airport plans have been mooted, their implementation is slow, largely because of lack of funds or lack of sufficient political recognition of the vital role that air transport can play in the overall economic development of the country concerned.

Many airport plans have been mooted but their implementation is slow, largely because of lack of funds or insufficient political commitment

In terms of smoothing the flow of the increasing number of aircraft throughout the region, it is generally believed that while much more can be done through increased investment in local air traffic control (ATC) facilities, in the longer term the expansion will best be served by the earliest introduction of satellite systems for aeronautical communication, navigation and surveillance.

This is largely because the region has vast areas of ocean, desert and jungle where it is either impracticable or difficult to instal surface-based ATC facilities similar to those existing elsewhere.

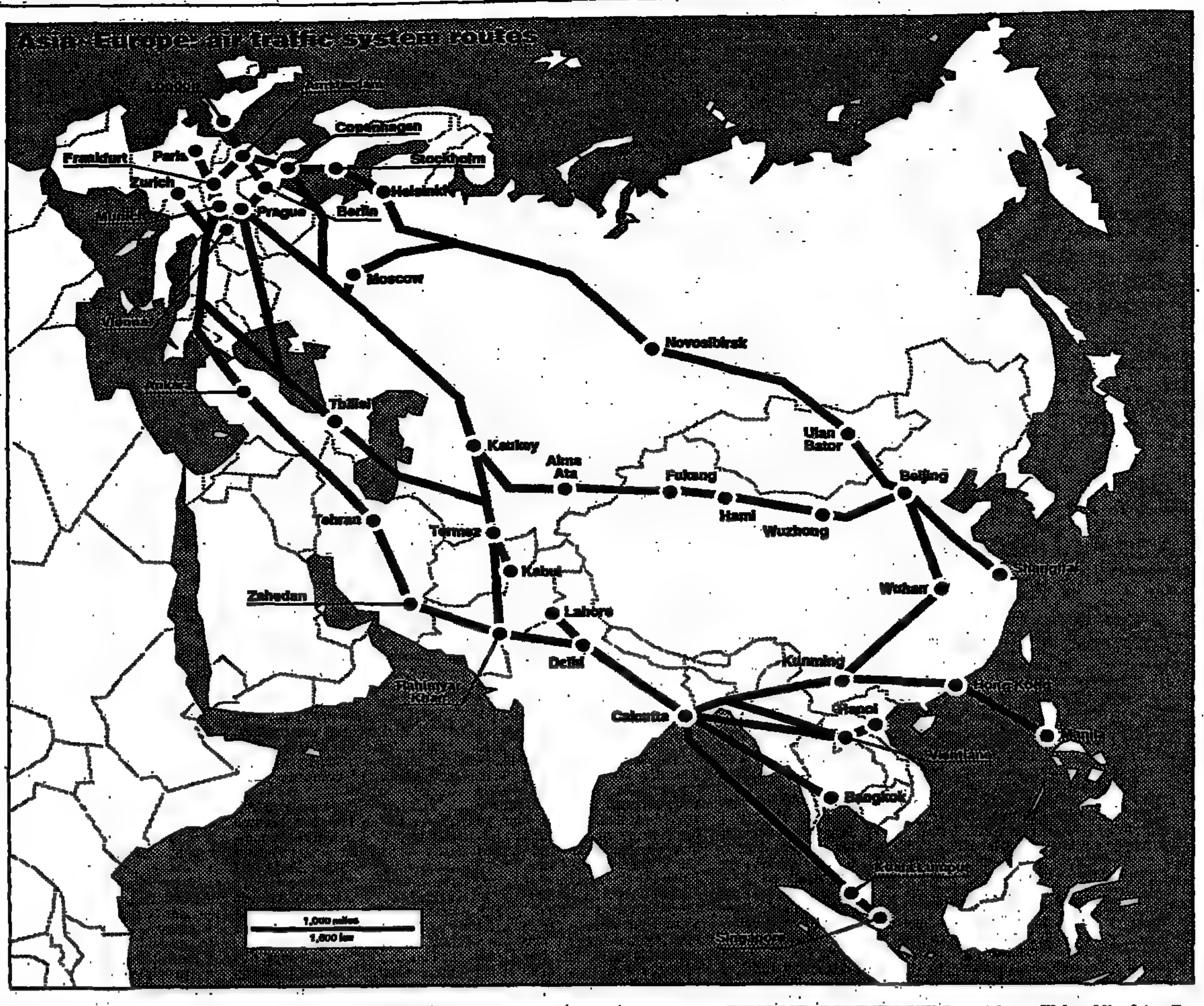
This problem has been under study for some time by the Future Air Navigation systems (FANS) committee of the International Civil Aviation Organisation (ICAO), and present indications are that by 1995, there will be two international global navigation satellite systems (the US GPS and the Soviet Glonass) deployed which will be available for satellite navigation services throughout the world.

But ICAO points out that satellite systems by themselves are not enough – they must be accompanied by complementary up-to-date local air traffic control and communications systems to be fully effective.

Moreover, because the coverage of satellite systems would extend over much greater areas than any current ATC systems, the planning and implementation of such systems will require a much higher degree of international planning and co-ordination than has currently been achieved in the area.

Another problem in the development of the region's air transport infrastructure lies in the provision of new internationally defined and recognised air routes – the "Tracks in the Sky" along which the aircraft must all fly – especially between the Pacific Rim countries and western Europe.

The implementation of a new route structure over China and the Soviet Union for Europe-Hong Kong traffic is now considered urgent, because the excess mileage involved in flying the current Europe-Hong Kong track is almost double that incurred between other Asian airports (such as Tokyo) and Europe.



For example, it is believed that a route from Hong Kong over Xian and Lanzhou in China and over Mongolia to Novosibirsk in the Soviet Union could save some 10 per cent (500 nautical miles) in route mileage compared with the existing more southerly track, with consequent benefits to airlines and passengers in less flying time and lower costs leading to lower fares.

There is also the need for improvements to long-haul international air routes over India and Pakistan, and between Peking and Europe via Ulan Bator in Mongolia and Novosibirsk.

Although there are discussions on these matters between other countries and the Soviet Union, China and India/Pakistan under the auspices of the ICAO, progress is slow, again largely because of the political difficulties involved.

Other difficulties include a lack of facilities in some areas, such as English-speaking air traffic controllers and up-to-date navigation aids such as radio-navigation beacons.

It is also believed that the capacities of many existing air routes could be significantly increased by the provision of improved air navigation techniques, such as radio-navigation systems.

Assessing the cost is difficult, but taken together – new airports, improved air traffic control facilities and satellite navigation system, together with changes to the pattern of air routes – the cost will collectively amount to many billions of dollars.

While some financial aid may well be forthcoming from the ICAO itself through its existing programmes for technical financial assistance to developing countries, most of the burden will undoubtedly fall upon the individual states themselves.

They will be obliged to allocate larger proportions of their annual budgets to commercial civil aviation, something which may prove difficult to achieve politically in countries where other more immediate priorities exist.

They will also have to be convinced that the cash invested in commercial aviation is not an extravagance, but a vital ingredient of long-term economic, sociological and even political growth.

JAPAN

Poised to join the high fliers

"JAPANESE manufacturers can make any type of aircraft," claims an official of Japan's influential Ministry of International Trade and Industry (Miti). "It is not a question of technological know-how but of marketing and costs which call for collaboration (with western manufacturers)," he states.

The Miti official and other Japanese members of the industry are hardly the only ones to give Japan's aviation manufacturers high marks for technological expertise. Boeing, which has long recognised the technological skills of the Japanese, recently invited the country's leading aerospace manufacturers to become risk-sharing partners, rather than subcontractors, in the development and production of its latest aircraft, the B777, while General Electric has asked Ishikawajima Harima Heavy Industries (IHI), Japan's pre-eminent aero-engine manufacturer, to become a partner in the production of its new engine, the GE90.

The world aviation industry is still securely in the hands of the Americans and Europeans, but the growing technological strength and financial means of the Japanese at a time when the high risks and costs of aerospace development call for greater collaboration among aerospace manufacturers means that the stage is set for the Japanese to become a formidable force in the not-too-distant future.

The size of the Japanese aerospace industry, which has been hampered in its growth by the lack of a substantial domestic market, is only one fiftieth of the Japanese automobile industry, according to an official at one of the leading manufacturers. But Japanese aerospace manufacturers have long been building up technological strength through licensing agreements and through subcontracting, particularly from Boeing.

The lessons they have learned over the decades have brought them to the point where they are now eager to break out of the role of subcontractor to become manufacturers on a comparable, if not equal, footing with the western leaders in the field.

In order to do so, they need to put their accumulated skills directly to the test and to acquire experience in the crucial aspects of marketing and product support. The best, and most likely the only way for them to do so is by linking up with the industry leaders and participating as joint production partners in projects which would give them experience in the overall development and production of aircraft and engines.

"It is important to find more opportunities to co-operate on an international level," says Mr Yasuichi Arao, senior managing director of the Society of Japanese Aerospace Manufacturers. Joint production projects offer opportunities that are not available to the Japanese on their own.

To take technology, for example, although industry experts claim that the high level of Japanese simulation technology assures a relatively high success rate at the production stage there are obvious limits to relying on simulation technology, particularly in commercial aerospace production where reliability is a priority. There are no altitude test facilities to determine how equipment will perform at high altitudes in Japan. Flight tests are not really a practical possibility either.

Even in the defence industry, where development costs would be shouldered by the Japan Defence Agency and would therefore not restrain development in the way they do in the commercial field, the lack of space in Japan, for example, makes it impractical to conduct flight tests, says Mr Makoto Momoi, an independent defence analyst.

In the commercial field, where the high cost of production makes it essential to secure marketability before a product can even be developed, Japanese manufacturers, with no history of product reliability in the aerospace industry, have little chance of succeeding on their own.

"It is sometimes claimed that Japan will develop its own industry, but this is impossible because of market conditions," states Mr Shinichiro Ohta, director of the Aircraft Ordnance Division in MITI. The ability of aerospace manufacturers to market their products has become a prerequisite for production. And for the Japanese, joint production with an industry leader is a necessary step in building up the reputation for reliability that is crucial in finding a market for their products.

The need to find a market outside of Japan is another factor that makes joint production a necessity for Japanese manufacturers.

"Even if all the Japanese airliners buy only Japanese aircraft it would still not support the development of a Japanese aerospace industry," says one industry expert. "The US makes up 70 per cent of world air travel demand. Unless orders can be obtained from this market, it will be impossible (for a full-fledged Japanese aerospace industry) to survive," he says.

In addition, Japanese manufacturers face the same issues of high risks and costs that are driving such world leaders as Boeing and Rolls Royce to seek an increasing number of international partners.

"It is probably impossible for a single company to develop a completely new product from scratch, and it is (therefore) no longer appropriate to argue about each country's technological strengths and weaknesses," says an official at IHI.

Yet while Japanese aerospace manufacturers may not be about to strike out on their own, there is little doubt that they are determined to become a leading force in the industry. For one thing, the companies involved in the industry, the heavy industry manufacturers, are predominantly shipbuilders, who are under pressure to diversify from a sector where they are losing their cost competitiveness and into other growth industries where the need for a high level of technology gives them a leading edge over their rising Asian competitors.

These companies are also the country's leading defence contractors, which, like their US counterparts, face a likely decline in orders from the defence authorities. There is every reason to believe that they are eager to move away from a dependence on orders from the Japan Defence Agency. While defence contracts do not generate the bulk of their profits, a fall in orders is expected to slash the companies' profits by more than Y100bn annually.

The flames of their ambitions are no doubt being fanned by the eagerness of the mighty Miti, to develop aerospace as a key industry for the next century.

The Ministry's Mr Ohta says that the main reasons why Miti is keen to develop Japan's aerospace industry are the benefits of synergy between aerospace and other industries, the need for Japanese manufacturers to be able to produce aircraft for Japan's self-defence and the opportunities offered by aerospace production for international co-operative manufacturing efforts.

Critics in the US are sufficiently worried about the Japanese threat to the last bastion of US technological strength that some have even called for government intervention in Boeing's joint projects with the Japanese. The US manufacturers themselves, however, are more concerned about ensuring their own survival and competitiveness, for which the technological and financial contribution of the Japanese are deemed essential.

As aerospace production becomes more complex and costly, the technological skills that the individual companies have to offer and the financial means that are available to them and to the trade ministry assure Japanese aerospace manufacturers a role of growing importance in the industry.

The trade ministry, for example, is now taking the initiative in research and development of hypersonic passenger transport. It will launch a Y28bn project next year to develop a prototype Mach 3-5 engine as Japan's proposal for an international co-operative venture on hypersonic passenger transport, a project which the world's leading engine makers have already expressed a keen interest to participate in.

Michiyo Nakamoto

Asia and Pacific carriers' share of world traffic (%)

	1978	1987	Increase 1978-87
North America	41.0	39.7	-1.3
Europe	35.0	31.3	-3.7
Asia and Pacific	13.5	18.8	+5.3
Latin America/Caribbean	5.0	4.7	-0.3
Middle East	3.0	3.2	+0.2
Africa	2.5	2.3	-0.2

Rolls Royce/ICAO

Roy Garner on Japan's poor airport facilities

Tokyo pays the price for inadequate space

A NEW Japan-US aviation agreement concluded last November on the expansion of trans-Pacific flights, combined with a boom in Japan-Europe travel and a continuing rise in the number of Japanese wanting to make overseas trips, have all contributed to the current upbeat mood in Japanese aviation circles.

Just one black cloud darkens Japan's lucrative flight paths: the chronic shortage of airport facilities, centred on the ill-conceived and grossly overburdened New Tokyo International airport, at Narita.

With its remote location and inadequate transportation facilities, travellers from neighbouring Asian countries routinely find the journey from Narita into Tokyo takes longer than the flight to Japan itself and tempers often flare among passengers in the overcrowded terminal building.

With construction of a second runway at Narita, planned for March 1991, still in doubt following continued action by anti-airport protestors, and resistance to increased services coming from both local residents and air traffic controllers, there is little sign of an end to the crisis.

Fears are also now growing that the new Kansai International airport, now being constructed on reclaimed land in Osaka Bay, could face similar problems. The opening deadline in 1993 is currently threatened by the refusal of 378 local people to sell the land needed for the island airport's road link.

Among those frustrated by the overcrowded airports are the 38 countries whose applications for aviation agreements with Japan are still pending.

Japan Air Lines spokesman, Mr Geoffrey Tudor, describes the inadequate airport facilities in Japan as "a tremendous constraint on the whole market here," and points out that although some foreign airlines are keen to utilise smaller regional airports as alternative gateways to Japan, leading airlines such as JAL, with "huge outlays already at Narita and Osaka" balk at the prospect of making more costly infrastructure investments elsewhere.

However, US carriers are more interested in using local Japanese airports, one reason being the terms of the original Japan-US aviation agreement of 1952, under which they have "beyond air traffic rights", allowing them to fly to a third country via Japan without restriction. These third countries would likely include South Korea and other Asian destinations.

Last month, American Airlines' application to the US Department of Transportation for six new routes between the US and Japan, included a request for three flights serving Nagoya.

South Korea's recently established second airline, Asiana, has also sought expansion in Japan through the use of regional airports, with plans to inaugurate flights from Seoul to Nagoya, Fukuoka and Sendai during the first half of this year.

With construction of a second runway at Narita, planned for March 1991, still in doubt, there is little sign of an end to the crisis

The industry's biggest growth area is the Japan-Europe market. A recent JAL survey found that Europe came second only to Hawaii as the most popular tourist destination among the Japanese, and seat occupancy levels exceeding 70 per cent are the norm for airlines serving the route.

The domination of London-Tokyo traffic by British Airways and JAL was ended in July last year, when All Nippon Airways (ANA) began offering services on the route, a move which also facilitated the granting of a license to Virgin Atlantic Airways of the UK to fly to Tokyo.

ANA aims to boost its four weekly flights to a daily service within three years, while Virgin is challenging the Japanese on passenger comfort, for example offering all passengers seats with built-in video screens and a choice of 50 movies, in Japanese if requested.

France and Japan have also agreed to introduce four extra weekly flights between the two countries from spring serving both Tokyo and Osaka.

A common objective of the airlines offering Europe-Japan services is to be well-placed to meet the expected rise in demand following the lifting of European Community trade barriers and the creation of the Single Market in 1992. With this end in mind, mutually beneficial tie-ups between European and Japanese airlines are expected to multiply. Austrian Airlines and Scandinavian Air System are already working together with ANA, and Swissair now offers a Tokyo-Zurich service in a joint operation with JAL.

Trans-Pacific services continue to form the backbone of Japan's international aviation network. Six US airlines currently provide 260 weekly flights between the two countries, while three Japanese carriers offer 140 services.

The new bilateral agreement, concluded last November, calls for 100 more US-Japan flights per week, and allows Japanese carriers to open three new routes between Tokyo and the US, including Hawaii. Competition for these services is currently intense between JAL, ANA and Japan Air System.

ANA wants to inaugurate flights to New York, San Francisco and Honolulu, while JAL is pitching for Boston, Washington and Maui. JAS, which presently only serves Seoul, hopes to fly to Honolulu. Both ANA and JAL are also seeking route extensions to Orlando, Houston and Denver.

Among the new services proposed by US airlines are Kona-Tokyo, Maui-Tokyo, Honolulu-Nagoya and flights to Fukuoka, for which Northwest Airlines has applied to the US Department of Transportation.

With Japan-US passenger numbers increasing by 20 per cent a year, and cargo by 30 per cent, over the past two years, 1990 is certain to see a marathon struggle between US and Japanese airlines seeking to secure the top spots in an intensely competitive market.

Chris Sherwell on the Australian sector

Double trouble

FOR THE past eight months, debate in Australia's aviation industry has been dominated by a bitter and disruptive domestic pilots' dispute. For the next eight, the arrival of deregulation will do the same.

The two issues are not unrelated. What, on the surface, looked like a traditional pay clash involving the pilots unfolded in the way it did largely in *anticipation of deregulation*, which takes effect in November.

For the pilots, the dispute was a last chance to secure big gains before the industry was opened up to real competition. For the domestic airlines, it was a critical opportunity to ensure competitiveness before facing vigorous new entrants.

In the event, it turned into one of Australia's longest and most costly industrial relations battles. The domestic airlines' flights were grounded for three weeks, and the government had to turn to international airlines, foreign-crewed aircraft and the air force for relief.

Even now, neither side has actually given in, nor can they claim much honour. The 1,640 pilots, who were already a pampered elite in the industry, showed they were prepared to shut down one of the country's vital services to press for a flat 29 per cent increase no one could possibly support.

Having resigned as part of their tactics, most now remain outside the industry. Ironically, those who have gone back are receiving pay increases close to what they wanted, but in *return for productivity concessions.* They have also lost their union, the Australian Federation of Airline Pilots.

As for the airlines – the privately-owned Ansett and its subsidiary East-West, the state-owned Australian Airlines and the freight group Ipec – they *showed they were unwilling or incapable* of negotiating a compromise both before and after the dispute went out of control, and are now struggling to rebuild their businesses.

All have suffered lost revenues and profits. Last month, Australian confirmed that it would report big operating losses in the current year, but would benefit from asset sales and yet another fare increase. The cost of the dispute to the economy, and especially to travel-related businesses, is still being calculated.

The next big test for the industry comes in November, when at least one and perhaps three new entrants join the competitive fray which is expected to follow the end of Australia's 38-year-old Two Airline Policy.

Under this policy, tight regulation of aircraft imports, of routes, load factors and even fares has protected the existing airlines' oligopoly, guaranteed them satisfactory returns and resulted in high operating costs and inefficiencies.

When the Government in 1987 gave three years' notice that this policy would end, its aim was a more efficient industry offering a wider range of services *and lower fares to consumers.*

So far three players have signalled a desire to compete: Compass Airlines, Capitol Airlines and Southern Cross Airlines. Compass, which is headed by Mr Bryan Grey, a former head of East-West Airlines and Air Niugini, appears *to have advanced furthest so far.*

According to the government's Bureau of Transport and Communications Economics, they will be entering a risky market and can expect an uphill battle to establish themselves. Brokers Ord Minnett, which recently published its own study, also foresees difficulties.

Apart from pointing out the heavily-entrenched position of Ansett and Australian Airlines, both analyses cite the need for new entrants to have a route structure with adequate frequency, fares and load factors, a reservations system, assured airport terminal facilities and peak-period access to Sydney airport, the critical hub of the domestic network.

In response Compass, which is aiming for a small market share using heavily discounted airfares, claims several advantages in having a fleet of identical wide-bodied aircraft in a single class, and capitalising on public disillusionment with Ansett and Australian.

In fact the principal battle will almost certainly remain between Ansett and Australian. Ansett, together with East-West, holds an estimated 56-59 per cent of the domestic air passenger market, compared to Australian's 41-44 per cent.

The difference is explained by Australian's more limited presence in the regional markets of Australia. Ansett, which is half-owned by Sir Peter Abeles' TNT group and half by Mr Rupert Murdoch's News group, is also a *stronger and more aggressive player.*

On the other hand Australian has successfully eroded Ansett's share of the high-yielding business class market. *From last month it has also had a* change of leadership, with Mr John Schaap succeeding Mr James Strong.

As the post-deregulation fight unfolds, another big policy issue will increasingly demand resolution, namely the future ownership of Australian and of Qantas, the international flag-carrier, which *has also had a change at the top.*

For some time ministers in the present Labour Government have questioned the value of government ownership *of the two airlines, but the party's* left wing has vetoed the idea. The Government is said to have considered alternative forms of capital injection to *reduce its obligations in helping the* airlines meet their heavy financing commitments over the coming years. None has yet taken concrete form.

If the opposition Liberal and National party coalition wins power in the general election due to be held by May, privatisation of the two airlines is likely within 12 months of it taking office. It is assumed that a proportion of the companies would be offered to foreign investors.

Qantas itself has meanwhile pulled off a memorable achievement over the past year, managing a publicity coup in the process. After taking delivery of the first of 10 long-haul Boeing 747-400s, it flew the new jumbo jet non-stop from London to Sydney. It was the first time this had been done and, at 17,850 km, the distance was the furthest any commercial jet had ever flown.

Profile: Bryan Grey, Compass Airlines

Turbulence ahead

WHEN it comes to experience, few aviation executives in Australia can match the *long* and diverse record of Mr Bryan Grey. As head of the new Compass Airlines, he will need every bit of it.

Come November, when Australia's "Two Airline Agreement" finally ends, he will not only take on the established carriers, Ansett and Australian Airlines, but also any other new entrants in the domestic aviation industry.

Now 60, his aviation career stretches back to 1958, when he joined Ansett. In the 1970s he managed Air Niugini in Papua *New Guinea,* then helped run Ansett and, in the early 1980s, headed East-West Airlines in Australia.

"I've had experience of commuter airlines, of domestic and international operations," he says. "I've been involved in buying and leasing aircraft, introducing new routes, fighting fare wars and managing air crew. I also know what makes pilots tick."

Even so, he is under no illusions about the battle ahead. In the wake of the bitter pilots' dispute last year, Ansett and Australian have secured productivity gains which make them better equipped to take on competition of the sort Compass will offer.

The new airline's strategy is *focused on the deep* discounting of air fares, using a fleet of five new wide-bodied (288-seat) single-class Airbus A300-600R aircraft operating between seven cities – Sydney, Melbourne, Adelaide, Perth, Brisbane, Cairns and Coolangatta on Queensland's Gold Coast.

Compass will price its peak and off-peak fares 20 per cent below whatever standard economy fare Ansett and Australian offer, while certain night-time flights will have a 50 per cent discount. It is planning on a 63 per cent load factor, but *expects 80 per cent in practice.* Its target is a market share of about 10-12 per cent.

Mr Grey reckons Ansett and Australian, in spite of their recent productivity gains, will be unable to match Compass discounts because they operate mixed fleets of different aircraft, and do not have their *flight* crews based in a *single* location.

Also, because the new airline's routes already carry 70 per cent of the domestic passenger market, Ansett and Australian will be limited in their ability to use increased fares on other routes to subsidise their own discounting.

According to an information memorandum prepared for prospective investors in Compass, Ansett and Australian would have to halve their cost structure before they were cost competitive with Compass. It also *reckons Compass* would be profitable if the discounts were doubled.

As matters stand, Mr Grey is to "wet lease" two Airbuses from a European airline for 30 months from November 1, complete with five captains and five first officers and technical support. Delivery of the airline's own aircraft is due to start in February 1991, continuing to September 1993.

For these Compass has arranged operating leases with Polaris of the US, a subsidiary of General Electric, whose engines will power the Airbuses. The aircraft will be based at Brisbane, and maintenance will be done by Hawker Pacific, part of the Hawker Siddeley group of the UK.

To ensure access to travel agents, Compass is finalising an agreement to use the Sabre reservation system developed by American Airlines and used by Qantas. Just as important, the airline and other new entrants are guaranteed access to the terminals which Ansett *and Australian presently hold* under 20-year leases.

Mr Grey has staked most of what he owns on the success of Compass, and is now seeking A$50m in equity capital through a private placement and another A$15m in borrowings.

His efforts and those of his advisers, Potter Warburg, were not helped last month by a research paper from brokers Ord Minnett recommending that, because of the uncertainties, prospective investors "wait for the dust to settle" before investing in new airlines, especially as opportunities should arise to invest in Australian and Qantas.

The study attracted a blistering response from Compass, which said Ord Minnett's "generally negative" view of prospects had failed to address the fundamental economics of aviation in Australia and the "tremendous cost advantages" Compass would enjoy over its rivals.

Chris Sherwell

The June massacre had a devastating impact on the tourist and aviation industry. Fleets and airports are now being modernised

Sanctions have severely hit China's inefficient aviation sector

The fall-out from Tiananmen

CHINA'S airlines have long suffered from inefficiency, bureaucracy, and poor customer service. The massacre in Tiananmen Square last June and the subsequent imposition of sanctions and collapse of the tourist industry served to further compound the aviation industry's many problems.

Now, however, the Civil Aviation Administration of China (CAAC), the government agency which owns and operates the airlines, is striving to expand, upgrade, and modernise its aircraft fleet and airports.

"With the type of TV coverage there was last spring, the tourism market dropped right to the bottom of the barrel," said a western airline executive. "People don't have to come here as tourists when they can go to the Caribbean. Many people equate Tiananmen with Xian as a tourism spot and they don't want to feel threatened."

The impact of the Tiananmen Square slaughter on tourism was devastating. Last year, tourism revenue fell to approximately $1.7bn compared with $2.2bn in 1988, according to a western diplomat. The government's target for 1989 before June was $2.5bn.

The number of passengers travelling on both Chinese and foreign airlines also plunged. CAAC flew about 12m passengers last year, according to the English-language China Daily, compared with 14.4m in 1988. CAAC subsequently reduced the frequency of its domestic flights and those it operated to Tokyo, although for political reasons it has generally continued to operate on most of its international routes.

Foreign airlines also promptly reduced their flights. Japan Airlines, which operated 13 weekly flights between Japan and China during the peak season in the spring, has reduced the frequency to seven a week. All Nippon Airways cut its flights to Japan from seven to two a week. And United Airlines, which had plans to add another aeroplane to the three operating from Peking, scaled back to one a week.

Canadian Airlines has suspended its flights altogether from Peking to Canada until 1991. The only money-making flights leaving Peking are those making stopovers in Hong Kong or elsewhere.

The sanctions imposed after June also hit sales of military aircraft to China. Sikorsky, which had delivered 24 Blackhawk helicopters to the Chinese Air Force, withdrew its support service and supply of spare parts.

The sale of six Boeing Chinook helicopters for military use was also stopped, according to western sources. Western sources said Grumman, the US aircraft manufacturer, had discussed with the Chinese military a proposal to upgrade a Chinese fighter with $500m worth of electronic equipment. The US Administration had not approved this sale before the crackdown and now it has reportedly been temporarily shelved.

The imposition of sanctions also delayed the delivery of three Boeing 757s last autumn to Chinese civilian airlines in Guangzhou and Shanghai. President George Bush subsequently lifted the ban on the export of the aeroplanes, apparently because the Chinese already had access to similar planes with sophisticated navigational systems that could have military use.

Apart from the sanctions, the aviation industry has also been affected by the downgrading of China's overall credit rating in international financial markets. The cost of borrowing to finance aircraft purchases has risen. One western source said some banking syndicates in London were asking Chinese Airlines to pay ¾ per cent higher than Libor for their loans compared with below Libor rates earlier in 1989. Banks were also reportedly requesting airlines to obtain loan guarantees not only from the Bank of China but from other sources as well.

In addition to financial constraints, CAAC is facing the task of improving its appalling customer service. It is still hampered by bureaucracy, inefficiency, and an extreme reluctance by staff to assume responsibility or be helpful when things go wrong, particularly at the airports.

Thus, CAAC is taking steps to improve its service and technical and maintenance standards. One of the most dramatic steps Air China, CAAC'S Peking-based airline, is taking is the installation of a computer reservation system. This will eventually function as the central reservation source for all of CAAC's other regional carriers, according to a western airline executive.

Purchasing a round-trip ticket has proved extremely difficult. Individual travellers are allowed to make return bookings only after they have reached their outward bound destinations. Now, however, Air China is starting to offer return tickets on a limited basis on its flights from Peking to Shanghai.

Travellers must still confirm upon arrival in Shanghai that the tickets are valid, but western airline sources said some uncertainty is a normal part of the process of switching from a manual to fully automated reservation system.

CAAC is also expanding its fleet of aircraft. The agency has plans this year to purchase more Boeing-747s and 757s, Mcdonnell Douglas-82s, and Chinese-made Yun-7s, according to the China Daily. However, because of the government's austerity measures, CAAC is also likely to acquire some Soviet-made planes such as the Tupolev 154, the Yak 42, or the Ilyushin 62, say aviation sources.

The Soviets have stepped up their marketing of aircraft in recent months. While the Chinese prefer western airplanes, because they require less maintenance and have better engine performance, the Soviets are able to offer aircraft at much cheaper prices or as part of a barter agreement.

To meet long-term domestic air traffic demand, however, the Chinese still plan to develop their own trunk line system by establishing a joint venture with a foreign aircraft manufacturer. This would be an enormous undertaking, involving the production of 150 aircraft with each seating 150 passengers.

Two US companies, Boeing and Mcdonnell Douglas, are competing for the contract. Before the end of this year, the Ministry of Aerospace Industry and the China National Aero-Technology Import and Export Corp (CATIC) are expected to select their joint venture partner.

"The Chinese have carefully cultivated relationships with both Boeing and Mcdonnell Douglas," one aviation source said. "They have bought a number of Boeings and have a joint production arrangement with Mcdonnell Douglas in Shanghai." Under this arrangement, Mcdonnell Douglas and the Shanghai Aircraft Industrial Corp will co-produce a total of 25 MD-82s by 1991 for use in China.

So far, the factory has made 13 aircraft, and the latest one was turned out last month ahead of schedule, according to an aviation source. Both sides are now negotiating an extension of the agreement which would involve the further manufacture of between 10 and 20 aircraft.

The Chinese aviation industry is not only seeking to produce its own airplanes, but is also modernising many of the country's airports, including Xian, Guilin, Shanghai, Hangzhou, and Chengdu, among others.

Since CAAC underwent a massive reorganisation in 1987 to improve management and efficiency, it has established four of six regional airlines. These are: Air China from Beijing, China Eastern from Shanghai, China South Western from Chengdu in Sichuan Province, and China North-West from Xian. China Southern from Guangzhou is expected to begin operating this year, while the sixth and final airline will eventually fly from Shenyang in the north-east.

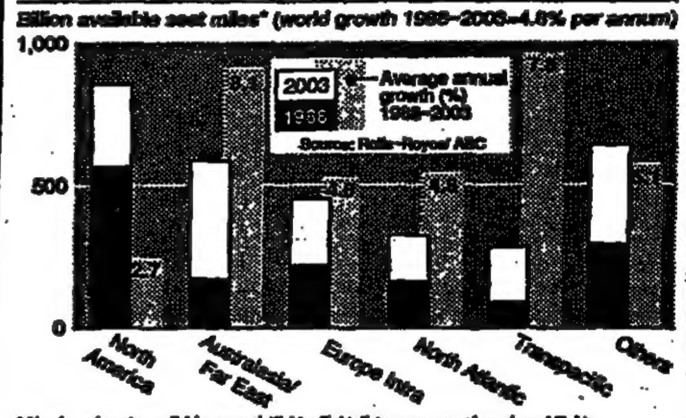
In addition to breaking up into separate airlines, CAAC also split its operations into airport authorities and regional administrative organisations. However, CAAC still acts as a kind of bureaucratic superagency with regulatory powers. In an effort to raise the airlines' technical standards, CAAC has adopted an informal consulting arrangement with the US Federal Aviation Authority.

Air China and Lufthansa have also established a large aircraft overhaul and maintenance joint venture in Peking, Ameco, to serve and maintain all of Air China's fleet and ultimately to be able to overhaul aircraft engines in Peking instead of returning them to the manufacturer to do the job.

A Special Correspondent

Total capacity by region

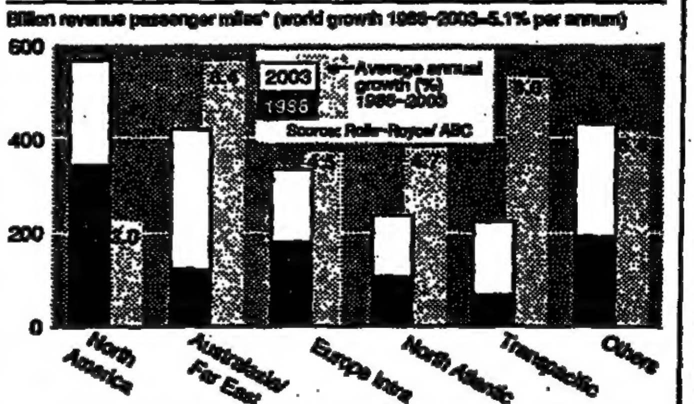
Billion available seat miles* (world growth 1988–2003–4.6% per annum)



*Number of seats available on each flight x flight distance x annual number of flights

Total traffic by region

Billion revenue passenger miles* (world growth 1988–2003–5.1% per annum)



*Number of fare paying passengers on each flight x flight distance x annual number of flights

INDONESIA

Home-grown talent starts to bear fruit

FIVE YEARS ago Mr Mursid Sumardi was an out of work architect kicking his heels doing part-time labour on a Jakarta building site.

Today, just 33, he leads the computer-aided design team on Indonesia's very first home-grown aircraft, a 50-seater turbo prop which IPTN, the state aerospace company, expects to be in production by the mid-1990s.

His story in many ways typifies an organisation which has always seen itself more as an institute of learning than a fully fledged business. Youthful, ambitious and not a little head strong, IPTN is today in the vanguard of Indonesia's high-tech development effort.

Led by the charismatic Dr Jusuf Habibie, the Minister of Research and Technology, IPTN has relations with the best known foreign aerospace companies, on a range of deals from simple maintenance to design and airframe manufacture. Its factory at Bandung in the West Java hills houses state of the art airframe assembly equipment, a wind tunnel research unit and an engine maintenance centre.

Since being established in 1976 IPTN has had a key influence on a whole generation of Indonesian scientists. Air Vice Marshal Suwondo, director of general affairs at IPTN, says: "To build an aircraft is easy. To train a workforce is much more difficult." Today's staff of 14,000, includes 1,000 engineering graduates. Half the workforce are bachelors. The average age is only 28.

President Suharto's backing has been vital to the project ever since he recalled Dr Habibie from Germany where he had been a director with Messerschmitt-Bölkow-Blohm. Like almost all Indonesian state companies IPTN publishes no financial statement. One official said total investment was less than $2bn. The budget continues to rise in spite of a less than impressive sales record.

In addition it enjoys privileged import rights on key inputs like plastics, steel and aluminium. Local carriers are obliged to buy from the company, and even the military's spending plans are increasingly linked to offset arrangements with IPTN.

At the centre of its plans is a collaboration with Construcciones Aeronauticas (Casa), Spain's state-controlled aircraft manufacturer. It makes the fixed-wing multipurpose NC-212 and the jointly designed CN-235, a 44-seat short-hop aircraft which can be used for container use or as a troop carrier. The company also assembles several rotary wing aircraft under license including the Aérospatiale Puma helicopter, MBB's BO-105 and the Bell NB-412.

Foreign aerospace companies are now looking at IPTN as a possible partner for component manufacture. Boeing, the world's largest manufacturer of civilian aircraft is already making some $50m worth of parts for both the 737 and 767. Fokker has a similar deal for its F-100. The most recent convert is Airbus Industries which agreed a component deal last November to make wing flaps and cockpits which officials say is worth as much as $100m. IPTN is also planning joint aero-engine collaboration with Rolls Royce of the UK.

While some cynics dismiss this all as a commercial ploy by the foreign companies to sweeten their own efforts to sell planes to Indonesia, the rush of interest in subcontract work none the less suggests that IPTN could carve itself an important niche in the increasingly global aerospace market. It will also promote Indonesian technology know-how and provide the company with badly needed revenues.

For even in the rarefied atmosphere of the IPTN boardroom the arguments for good housekeeping are beginning to have an impact. Last year for the first time the company's budget came now under annual review. Previously it was assessed on a five-year basis. Dr Habibie's latest move is to incorporate IPTN and the other companies under his wing, as part of a new strategic industry quango in order to stave off the threat of possible privatisation.

The arguments for further protection for IPTN are certainly getting harder to sustain, even for Dr Habibie. Under the original agreement half of the parts for every CN-235 are made by IPTN, either assembled at Bandung or shipped to Casa. Dr Habibie recently claimed 70 per cent of the plane was now sourced to Indonesia, largely as a result of the cheaper labour costs. Some observers say IPTN may even be leading its Spanish partners on design innovation, like the recent addition of "glass cockpit" computer instrumentation.

In aviation terms, IPTN is 'already beyond the point of no return'

The company has yet to conclude its first export order for the CN-235, the pride of the fleet. Currently all the planes made at IPTN go to the Indonesian military or local carriers like Merpati, a wholly-owned subsidiary of Garuda, the national airline. There has been interest from private lines in the US, including the Conquest Airlines Corp of Houston. A joint marketing arm has been established with Casa to penetrate the US market.

In 1989 the Indonesian company received another fillip when its Spanish partners agreed to guarantee the export of the CN-235 to the US – the first time any Asian-made plane has won approval from the US Federal Aviation Administration.

Not discouraged, Dr Habibie's latest scheme, the totally Indonesian designed N-250, will push the limits of IPTN's aerospace capability even further. The plane is seen as a replacement for the country's Fokker 28 and 27. It is planned as a possible competitor in the export markets for the Italian-French made ATR-42, as a short-hop commuter plane for the south-east Asian region.

In aviation terms, says an official, "we are already beyond the point of no return.

John Murray Brown

Profile: Moehamad Soeparno, president of Iata

New broom with radical plans

EVEN in these heady days of communist reform, it seemed an extravagant gesture to suggest that Aeroflot, the Soviet carrier banned from Indonesia following a spying incident, should ferry the country's Moslem pilgrims to Mecca.

Yet when Mr Moehamad Soeparno, new president of Iata, then proposed that Garuda, the state-owned airline that he also heads, be floated as a public company, he received even shorter shrift from his government colleagues in Jakarta.

But Mr Soeparno is a breezy character. Ambitious, with the looks of an old fashioned matinee idol, he in many ways personifies the new breed of Indonesian businessman.

In October he was appointed President of the International Air Transport Association (IATA) – a move which he says reflects growing interest not just in the Asia Pacific region, but in Indonesia and more particularly in Garuda.

Last February after juggling with the accounts he proudly announced the company's first profit for a decade. He then unveiled a $50bn expansion programme to upgrade the fleet to take advantage of the projected growth in Asia Pacific air traffic. On a lighter note, in December he was again voted one of Indonesia's best dressed men.

Garuda has never been one of Asian's more fashionable airlines, but Mr Soeparno is determined to change all that. And at IATA he wants western airlines to pool resources in areas like staff training, to assist carriers in developing countries.

"We are entering a service industry but sometimes the public expects too much. Take a flight to Medan for example. The Batak people complain there is too little meat. The people from Java say there is not enough rice."

At Iata he wants western airlines to pool resources in areas like staff training, to assist carriers in developing countries

An Indonesian sociologist suggested the reason for Garuda's poor service was that many of the stewardesses came from middle or upper class families and were less accustomed to waiting than to being waited on.

There is certainly a need to expand the fleet. In 1989 Garuda faced a serious shortage during the Haj pilgrimage to Mecca when Garuda ferries 60,000 pilgrims in 25 days. Air America was contracted to help out.

Indonesia is strategically located in a region which is projected to be the fastest growing aviation market in the next decade. Indonesia's own economy is growing, reflected in increased trade and investment flows. The number of tourists is also up, and reached 1.3m in 1988 compared with 700,000 in 1984. Over the period Garuda more than trebled its passenger income to rupiah 2.2 trillion (billion billion), using the same number of staff and the same size of fleet. "As a businessman you have to be optimistic once in your life," says Mr Soeparno.

However, the expansion plan is not without its critics. In the early 1980s after going into the market for Airbuses the company was left saddled with a large dollar debt which at one time stood at $1.6bn. The company still has outstanding debts of $380m, but officials say it should be paid off by 1993.

Mr Soeparno says Garuda borrowed without the equity to back it up. The company also bought the planes without a proper marketing plan, he says. Garuda anticipated sharp growth in air traffic for its new wide bodied aircraft, only to find that with the world-wide recession, and a slowdown in Indonesia's own economy, many of planes spent more time on the tarmac than in the air.

The company is in much better health today although no accounts are made public. But some observers wonder whether the time is right for increased spending.

Mr Soeparno says the six McDonnell Douglas MD-11s and eight Boeing 737s will be financed by leasing, to avoid increasing the debt. However a decision on the remainder – 12 Fokker 100, six Boeing 747 and nine Airbus A330 – has still to be made.

Perhaps more controversially, Mr Soeparno has attracted comment for the way the children of President Suharto have been allowed a slice of the leasing contracts. Bimantara, a company owned by Bambang, the second son of President Suharto was appointed Garuda's sole agent under the first accord for the 737s signed last year with International Lease Finance of California. Bimantara was also involved together with Humpuss, a company owned by Tommy, the youngest son of President Suharto, in forming a consortium with Guinness Peat Aviation to lease the MD-11s to Garuda. Businessmen say Bimantara has been offered first refusal on all future leasing agreements as well.

John Murray Brown

SINGAPORE

Open skies policy pays off

MENTION Singapore and two images spring swiftly to mind: Singapore Airlines, the national carrier, and Changi International Airport. One has, in its worldwide advertising campaign, the Singapore Girl – a byword for youthful beauty coupled with excellent inflight service, and the youngest and one of the most efficient fleets in the world, operating non-stop long hauls.

The other has, for the past two years, been voted the world's best airport by the UK-based Business Traveller magazine. Changi also boasts numerous other awards for efficiency and baggage retrieval. Its duty-free shops are the world's fifth largest in term of sales and are expected to become Asia's number one before 2000.

Thirty years ago, 300,000 passengers and 30,000 aircraft movements were recorded in Singapore; 20 years ago, the figures had risen to 1.7m and 51,000 respectively. In 1981, when Changi Airport was opened, there were 8.1m passengers, more than 63,000 aircraft movements and 300,000 tonnes of airfreight. This year, the airport expects to handle some 15m passengers and 650,000 tonnes of airfreight and by 1995, at the height of the forecast boom in Asia-Pacific travel, it expects to handle 20m passengers and 1.2bn tonnes of air cargo. By 1995, one in three passengers will be an Asian.

But there is more to Singapore than SIA and Changi; the biennial Asian Aerospace, for example, is the third largest aerospace event in the world after Farnborough and Paris. This month, outdoor space rented has doubled while indoor exhibition space is up by half.

There are also superior aircraft repair facilities offered not only by Singapore Airlines but also by the Singapore Aerospace group which has begun forging links abroad, for example with British Aerospace.

Singapore has reached this agreeable state of affairs because of a strict adherence to an open skies policy, its incessant promotion as an air hub, and forward planning in anticipation of future needs.

Blessed by its location at the crossroads of the world's principal trade routes, Singapore is well aware of its leading role in passenger and airfreight movements. To this end, Singapore has hewed to a liberal aviation policy where air traffic rights are exchanged with other countries with reciprocal rights for the national carrier. It is trying to attract yet more airlines with as many weekly frequencies as possible and, in the process, linking itself with many more destinations around the world.

The Civil Aviation Authority of Singapore (Caas) has helped achieve this pre-eminence through the liberalisation of air service agreements to provide for expanded scheduled service. This policy has made the republic one of the largest and fastest growing international air services centres from which 51 airlines operate to 110 cities in 54 countries.

However, Singapore Airlines has not always benefited from such reciprocity between national carriers. For instance, among the reasons for its strategic alliance with US-based Delta Airlines was its continued frustration with restrictions on its US operations. Mr Michael Tan, SIA deputy managing director (Commercial), explained the Delta link-up thus: "We are not allowed to operate more than a daily frequency through Tokyo to the US because of an outmoded, one-sided restriction. We can only fly to the US via the Pacific and not the Atlantic."

This and other restrictions have made it difficult for SIA to take full advantage of the market opportunities on the US route. And yet, US carriers can operate free of such limitations to and beyond Singapore, he pointed out.

"Any number of US carriers can fly to Singapore from any direction, trans-Atlantic or Pacific, and they can start from any US point," he complained. The US has cited an aviation impasse with Japan behind its reluctance to consider Singapore's appeal to remove the Tokyo restriction. Now that the impasse has been broken, following the signing of a new US-Japan aviation agreement last November, SIA expects more positive action.

In fact, through a $360m share swap and 10-year marketing agreement with Delta, the third largest and most profitable American carrier, SIA can attain its goal more easily. It has also negotiated a similar share swap and marketing agreement with Swiss-Air. In the opinion of analyst Mr James Halstead of Salomon Brothers, the carrier will in the medium term be exploring with Delta opportunities for access to New York through its preferred routing across the Atlantic.

The longer-term benefits of SIA's alliances with Delta and Swiss-Air is to create the world's first truly global airline network covering 237 destinations in 64 countries on all continents with considerable opportunities for revenue generation and savings.

SIA, for example, will get greater access to Delta's substantial US domestic network and there will also be greater potential for passenger transfers through timetable co-ordination and the sharing of facilities at common destinations to reduce the cost of route operations.

Mr Halstead added that the Swissair deal would give SIA indirect access to markets in Africa, the Middle East and South America, which to date have proved economically unjustifiable.

To gear up for between 8 per cent and 10 per cent growth over the next five years, SIA's immediate priority is to step up investment in aircraft, equipment and crew. It would rather have excess capacity than be caught shorthanded and without equipment.

"We will recruit and train at a steady pace and acquire more aircraft options, whatever the economic weather. This may mean a temporary surfeit but it will allow us to ride the crest with the inevitable turn of the tide," said SIA's managing director Dr Cheong Choong-kong. The carrier has placed a $8.6bn order for 50 planes, comprising Boeing 747-400s and McDonnell Douglas MD-11s to be delivered between 1994 and 1999.

The Caas has not been idle in preparing for the expected upsurge in traffic. Among Changi's improved and expanded infrastructure facilities are the opening of a third cargo centre, the doubling of space to 44,000 sq m for aircargo forwarders in the airport's free trade zone and, later this year, the opening of a second terminal at a cost of $540m. All these plans are designed to substantially aid Singapore's efforts to become the region's leading air cargo transhipment and distribution centre.

The new second terminal, or T2 as it is called, will increase its total passenger-handling capacity to 20m a year, the largest in the Asia-Pacific region.

The two terminals will be connected by a monorail, the first such facility outside the US and UK. T2's facilities include 51 shops, a business and medical centre, fitness complex, banks, auditorium and facilities for the disabled. Having so successfully planned for its future, Singapore is ready to soar.

Tokyo Airport, where the shortage of facilities has been described as a "tremendous constraint on the whole market

THAILAND

Tourism fuels strong growth

ON DECEMBER 23, Thai Airways International (Thai) flight TG741 was found to be 1,000 km off course and was forced to land at Anchorage in Alaska instead of taking its 319 passengers direct from Seattle to Tokyo. Fears of a repeat of the Korean Airlines disaster five years earlier receded. Navigation equipment turned out to be faulty and was replaced.

Those outside Thailand might little suspect that questions have been asked repeatedly over the past year or more about the airline's own administrative navigators. Only a few weeks before flight TG741 deviated from its course, Thai embarked on another series of changes of direction amid much turbulence in the political atmosphere.

None of this seems to have affected Thai's popularity and prosperity. Fiscal 1989, which ended on September 30, saw a 14 per cent leap in pre-tax profit to a record Baht 7.42bn ($288.9m), with revenue up 16.9 per cent to Baht 46.42bn.

Part of the success is due to the upsurge in tourism and the strong economy, which boasts the world's fastest rate of growth. But the Thai economic miracle cannot alone explain the popularity of the airline.

The 7.4m passengers who flew in fiscal 1989 on the carrier's 46,068 scheduled flights to 49 cities in 36 countries could have chosen another carrier: 56 others serve Bangkok. Instead, Thai was voted third best airline in the world last year by readers of Executive Travel, after Swissair and Singapore Airlines.

Thai's ranking so close after Singapore Airlines in popularity polls is important to Bangkok as well as to the airline. Officials hope that Don Muang International Airport will replace Singapore's Changi as the main hub in south-east Asia. What at first appeared to be wishful thinking has started to sound so credible that the Straits Times newspaper of Singapore recently published a detailed comparison of the two airports.

The figures showed Singapore still had the edge with more passengers (12.6m in 1988 compared with Bangkok's 9.8m), more destinations (110 against 86 in 1989) in more countries (54 against 53) and more flights (1,700 a week against 1,300).

Cargo facilities in Singapore are also better, with faster trans-shipment from plane to plane or between plane and ship, and telecommunications is better. But although both airports are expanding, and both have modern passenger and cargo terminals, Bangkok's Don Muang is growing faster and costs are lower.

The expansion of Don Muang's pleasant passenger terminal is continuing, but already officials are starting to ask whether a second airport should be built. The Transport and Communications Ministry envisages traffic continuing to grow annually by about 20 per cent over the next two or three years, about double the annual growth expected for the region over the next decade.

The ministry predicts traffic will reach the current capacity of 16m passengers and 430,000 tonnes of cargo per year in 1992. Traffic forecasts under the original master plan envisages capacity being reached in 1994. A second terminal at Don Muang would take passenger capacity to between 26m and 30m per year by 1994.

The alternative of building a second airport on coastal marshland at Nong Ngoo Hao, south-east of Bangkok, was first proposed in the early 1970s. But it was scrapped because of opposition from environmentalists and accusations of corruption soon after the military dictatorship was overthrown in 1973.

This time round, in spite of a heightened environmental awareness, little opposition has been heard, although the revived plan has received little publicity yet.

The ability to expand civil aviation facilities at Don Muang also depends on whether the Royal Thai Air Force continues to use the airport as its headquarters. Air Force commanders have indicated they are willing to move, but no date has been set.

But the importance of the Air Force is much more than simply a question of making airport space available. Thai Airways International comes under the supervision of the Transport and Communications Ministry, but the airline's president is the Commander in Chief of the Air Force, and many directors are Air Force officers.

From time to time, military politics can have repercussions on the airline, such as two years ago when the Government overlooked Air Chief Marshall Kaset Rojananil, who had been expecting the job, and instead appointed someone else to head the airline. Leading figures among Thai's executives suddenly found themselves with severely reduced responsibilities.

For years privatisation has been discussed but in practice avoided by the airline's senior hierarchy, most of whom are drawn from the Air Force

In the ensuing row, Mr Kaset was promised the job after two years. The promise was honoured in October, and as Thai's new president he has re-established much of the original team, including executive vice president Chatrachai Bunya-Ananta.

The Kaset-Chatrachai leadership has already been severely tested. Already in the past year, the airline has been overruled on two issues.

First, the government forced it to break the de facto monopoly enjoyed by General Electric in supplying engines for the airline's Boeing, Airbus and McDonnell Douglas jets. Thai will now buy some engines from Pratt and Whitney for the new generation Boeing 747-400s it has ordered, as part of a deal that includes servicing facilities for Air Force jets.

Advisers to Gen Chatichai Choonhavan, the Prime Minister, also prevented Thai joining Singapore Airlines and Cathay Pacific in a computer reservation system called Abacus. The advisers, who are keen to establish Thailand as a computer and data processing centre, said Thai should only join Abacus if the main computer facilities were in Thailand, yet another aspect of rivalry between Thailand and Singapore.

Cathay and Singapore Airlines refused, and Thai is now joining Amadeus, the European-based system involving SAS, Air France, Lufthansa, and several other airlines.

In the coming months, finance could become an important issue as Thai seeks to add new generation Boeing 747s, MD-11s and Airbus 330s to its present fleet of 46 aircraft (eight Boeing 747s, 22 Airbus A300s, two A310s, three DC-10s, three Boeing 737s, six Shorts and two BAe146s).

The main problem is a ceiling of Baht 1.2bn per year on all new public sector borrowing, a limit which has helped Thailand avoid severe foreign debt problems, but one that handicaps profitable, foreign exchange-earning state enterprises such as Thai.

Although special dispensation has been given to Thai, a longer term solution could be partial privatisation, with a 30 per cent stake offered to the public.

For years, *privatisation has* been discussed but in practice avoided by the Air Force officers who have been reluctant to give up their power. Mr Kaset repeated recently that national security would have to be taken into account in any privatisation plans.

However, the stock market has proved so popular for speculators that the air marshals might begin to enjoy th idea of acquiring shares in Thai. In a country where such influence usually means shady dealings and where state enterprises are notoriously unprofitable, Thai's success is therefore all the more remarkable.

Peter Ungphakorn

John Elliott on Hong Kong airlines' defensive strategies

Slowly drawn into Peking's net

CHINA is asserting its influence in the Pearl River Delta in advance of its resumption of sovereignty over Hong Kong in 1997 and the nearby Portuguese enclave of Macao in 1999. Hong Kong's Cathay Pacific Airways and Dragonair have both been drawn closer into Peking's net in recent weeks, and China's influence is also being felt on new airport projects planned by both Hong Kong and Macao for the 1990s.

In the case of Cathay and Dragonair, China has helped to blunt Hong Kong's basic business ethic of open competition, which has invigorated the British colony for 150 years.

This happened last month when Peking's main foreign investment organisation, China International Trust and Investment Corporation (Citic), linked up with Hong Kong's dominant Cathay Pacific Airways to take over Cathay's only local passenger airline competitor, the small and loss making Dragonair.

Cathay and its parent, Swire Pacific, now own 35 per cent of Dragonair (Citic has 38 per cent) and Cathay is managing the airline. Routes are to be rationalised which means Dragonair will initially concentrate on China where the British and Hong Kong governments hope to negotiate improved traffic rights soon with Peking, now that the Cathay-Dragonair dogfight is over. But the Peking-sponsored takeover also means that Dragonair's five-year old international ambitions are finished.

It is also not yet clear whether Peking's influence will be entirely constructive on Hong Kong's plans, which are now going ahead, for a new HK$35bn airport at Chek Lap Kok off Lantau island and HK$27bn associated road and rail links.

Although Mr Li Peng, China's prime minister, recently told Sir David Wilson, Hong Kong's governor, that he backed the colony's economic development, there have been a steady stream of queries and qualifications from Peking about the large size of the airport plans

China's political problems last summer have also had an impact on the growth of the region's air traffic which fell sharply in the second half of last year as tourism dropped away. Hong Kong's overcrowded Kai Tak airport handled about 16.2m passengers last year, which was only 6.1 per cent above 1988's figure compared with a 20.6 per cent rise in 1988.

Forecasts for annual passenger growth in the next two or three years have consequently been trimmed from at least 12 per cent to only about 8 per cent, though what actually emerges will depend on China's internal political situation. Cargo handled at Kai Tak last year totalled 730,000 tonnes which was 5.2 per cent up on 1988 compared with an 8 per cent forecast.

The sharp decline in passenger growth rates is easing problems at Kai Tak which otherwise might have reached saturation point within a year or so. Now it looks as though full capacity will be reached in 1992.

Various construction plans costing HK$3.6bn have been drawn up to improve Kai Tak's operations till the new airport is ready in 1997. These include HK$2bn which will partly be used to attack the airport's main problem of a lack of aircraft parking space by adding 30 bays to the existing 39.

Preliminary construction works on the new Chek Lap Kok airport, which is to be located on partially reclaimed land, are to start next year. The target is to have the first of two runways operational by 1997, shortly before the June 30 sovereignty handover to China. That runway will be capable of handling 28.6m passengers a year compared with Kai Tak's 24m maximum.

Meanwhile, two other airports are already under construction in the Pearl Delta. One is being built to international standards with a single 3 km runway in Macao, 40 miles across the river estuary from Hong Kong. This is relying on backing from Peking and it will provide direct access into China, as well as Macao, through separate immigration checks. China which has a one-third stake through a consortium which includes the Bank of China.

Macao hopes that a new airline, probably Portuguese backed, will be run from the airport. There is some speculation that Mr Stanley Ho, a Hong Kong-based entrepreneur who controls many Macao businesses and has a stake in the airport, might want Air Hong Kong to fill that role. Mr Ho recently bought bought a controlling stake in Air Hong Kong, a small freight carrier launched a year ago.

The other airport, for China's domestic services, is being built in the Shenzhen special economic zone adjacent to Hong Kong with a scheduled completion date of 1991-92. Along with Macao, it will help to ease pressure on Kai Tak before Chek Lap Kok is opened.

There has been some criticism that three airports are being built at the same time within a radius of about 60 miles. But Hong Kong in particular has been determined to have a new airport within its own territory. It consequently rejected suggestions a few years ago that a joint Hong Kong-China airport should be built on the border at considerably less cost than would be needed for reclamation sites like Chek Lap Kok.

In the case of Cathay and Dragonair, China has helped to blunt Hong Kong's basic *business ethic of open competition*

Hong Kong is trying to protect its air traffic rights after 1997 in order to secure as successful as possible a future for the British Swire-controlled Cathay airline which has been facing two main problems. First there is the onset of the 1997 change of sovereignty. Second, there has been the allied problem of Dragonair's emergence as a rival airline owned by local ethnic Chinese entrepreneurs backed by the Peking.

Swire reacted by floating Cathay onto the local stock exchange in 1986. This gave it post-1997 viability because, in the terms of the 1984 Sino-British declaration on the sovereignty change, it became an airline "incorporated and having its principal place of business" in Hong Kong.

Cathay's future was further underwritten in 1987 when Citic bought a 12.5 per cent stake. Now the latest joint takeover of Dragonair indicates that Cathay has established good links with Hong Kong's future sovereign rulers, which should help when it comes up against airlines belonging to the Civil Aviation Administration of China that are bound to want to enlarge their services to Hong Kong after 1997.

Cathay also fought back by constantly opposing Dragonair's ambitions on all fronts. Now, however, it acknowledges that there can be a second-level regional feeder role for Dragonair, primarily with China but also with other nearby secondary destinations in countries such as the Philippines and Taiwan.

However, it remains to be seen whether Cathay is prepared to go so far as to hand over its Peking and Shanghai routes to Dragonair. At present Dragonair does not have the necessary aircraft – it has only five narrow bodied second hand 737-200s.

Cathay's current passenger fleet consists of 17 Tristars, with one more being added in July, and 16 Boeing 747s including two 400s. Negotiations are now being finalised to give it 10 more 400s on firm orders with 16 more options, plus one or two 400s on lease.

The first eight Tristars were bought new from Lockheed in the 1970s but the fleet has been enlarged in the past couple of years with second hand aircraft, mostly from Eastern of the US. These cost just under $20m each after refurbishment which has enabled Cathay to expand its regional network relatively cheaply.

The Tristars will gradually be replaced by Airbus A330s, 10 of which are to be delivered in 1995-96, with options for another 10 in 1996-97.

That order book demonstrates Cathay's confidence in its future. China may be extending its influence in and around Hong Kong, but Cathay believes it has gone a long way to protect its airline's future: first through the 1984 joint declaration; second through the building of Chek Lap Kok; third by building itself into a high profile successful operation; fourth by the expanding links with Citic, and finally by seeing off the once ambitious Chinese-launched Dragonair.

Taiwan's top airline faces a new domestic competitor. **Peter Wickenden reports**

Monopoly faces challenge at home

TAIWAN's peculiar position in international politics does its flag carrier, China Airlines (CAL), no favours. In spite of making record profits last year and reporting load factors of up to 90 per cent, CAL is able to fly on a limited number of routes and its efforts to open up new ones are continually stymied by pressure from the People's Republic of China.

It now faces a new challenge in the form of Evergreen Airways, established last April by the Evergreen group, which runs the world's largest container shipping line. Innocuously named and with no government connections, Evergreen is freer to secure landing rights in countries that do not recognise Taiwan and to carve out a share of the growing Asian air travel market.

Although CAL is a private company owned by the non-profit-making China Aviation Development Foundation, it is routinely referred to by the local press as the state airline, and most of its 24 aircraft are leased from the government.

Its passenger flights currently go to five US cities, and to 10 Asian cities, including Hong Kong, Tokyo and Bangkok. Amsterdam is its only port of call in Europe, with flight refuelling at Dhabran in Saudi Arabia. Cargo flights, which accounted for 20 per cent of total revenue in 1988, also go to Luxembourg, Dubai and Dallas, giving CAL a total of 20 destinations.

For the past five years, CAL and the Civil Aeronautics Administration have been striving to obtain landing rights, or set up joint venture deals with foreign airlines. The main targets at present are Paris, London, Frankfurt or Hamburg, Vienna, Rome, Sydney and Vancouver.

KLM is currently the only European carrier to fly directly to Taipei. All other flights involve a change at Hong Kong or another Asian city. Last year the British Business Group in Taiwan, a semi-formal chamber of commerce, wrote to British Airways' chairman Lord King urging him to establish a flight to Taipei. He replied that he was keen to do so, but that the matter was unlikely to get the go-ahead until the Hong Kong question was settled.

The Australian business community regards a direct flight to Sydney as a priority in improving bilateral trade relations and attracting Taiwanese investment. Talks with the Australian government, and with Qantas have been going on for years.

A breakthrough came last year, when Qantas set up a wholly-owned subsidiary, Australian Asian Airlines, specifically to serve the Taipei-Sydney route. However, Taiwan government officials say it will remain a paper airline until the Australian government's relations with Peking improve. Japan Airlines established Japan Asia Airways in order to continue serving both Taipei and Peking.

CAL's biggest worry is over its flights to Hong Kong, which account for 21 per cent of revenue and may be curtailed when the colony reverts to Peking's control in 1997.

CAL's president, Mr Chi Jung Chun said the government hopes to maintain its visa office there, and CAL would also like to continue its service. He is optimistic, pointing out that Peking would be unlikely to cut off the flow of hard currency generated by Taiwanese travelling to mainland China. More than 800,000 Taiwanese visited relatives (or pretended to) on the Chinese mainland last year, and more than half of them went via Hong Kong.

It is conceivable that the Civil Aviation Administration of China, the state agency which owns and runs mainland China's airlines, will demand traffic rights to Taipei. The Taiwanese government said in January that it did not rule out the possibility of direct flights to mainland China.

Evergreen meanwhile has obtained landing rights for Singapore, Vietnam, the US and the United Arab Emirates. "We are negotiating with all major Asian countries, such as

CAL's biggest worry is over its flights to Hong Kong, which account for 21 per cent of revenue and may be cut after 1997

Japan, Korea, Hong Kong, Thailand, Malaysia, the Philippines and Indonesia. We also keep very good contact with several European airlines, said president Mr Frank Hsu.

"We feel optimistic about the opening of landing rights from all the countries that we want to fly to. We are in the same political situation as CAL, but as a private company we have more flexibility in the negotiations. So we expect fewer problems."

With an expansion in its international services in mind, CAL recently took a 19 per cent stake in Taiwan's largest domestic airline, Far Eastern Transport. CAL is also adding new aircraft to its fleet to relieve pressure on severely over-booked trans-pacific and regional routes where American airlines are being increasingly aggressive.

In an effort to reduce Taiwan's massive trade surplus with the US, the government last year ordered five Boeing 747-400s, one B747-200F and four McDonnell Douglas MD-11s for CAL. The airline itself also ordered five Airbus A300Rs with one more on option. It is also considering replacing its six A300B4s with A330s. These will bring CAL's fleet up to 36 aircraft, with 9,800 seats and 300 tonnes of freight capacity by 1993. All the 747s are to be used on trans-pacific and European flights, while the Airbuses will be used in the Asian market.

Last October Evergreen ordered eight Boeing 747-400s, four Boeing 767-300ERs and 14 McDonnell Douglas MD-11s in a $3.6bn deal, the biggest single purchase of American equipment by Taiwan. The government stipulated that new airlines must buy new aircraft for passenger transportations.

Evergreen's aircraft are to be delivered from 1992 to 1997, but Mr Hsu expects to start flying next year with leased aircraft. "Our plan is to serve North America and south-east Asia first, and Europe second. It is not our strategy to compete with China Airlines." He expects to break even after only two years of operation.

Both the CAL and Evergreen purchases involve transfer of technology to Taiwan from the two US aircraft makers, to help Taiwan develop its fledgling aircraft parts industry.

CAL made pre-tax profits of $122m in the first 10 months of 1989. The previous year it made profits of $65.2m after tax.

While China Airlines recruits retired air force pilots, Evergreen is training its own pilots at North Dakota University and the International Air Service Company. CAL decided to start doing the same after all 40 passengers on a domestic Boeing 737 were killed in a crash last year that was allegedly caused by pilot error.

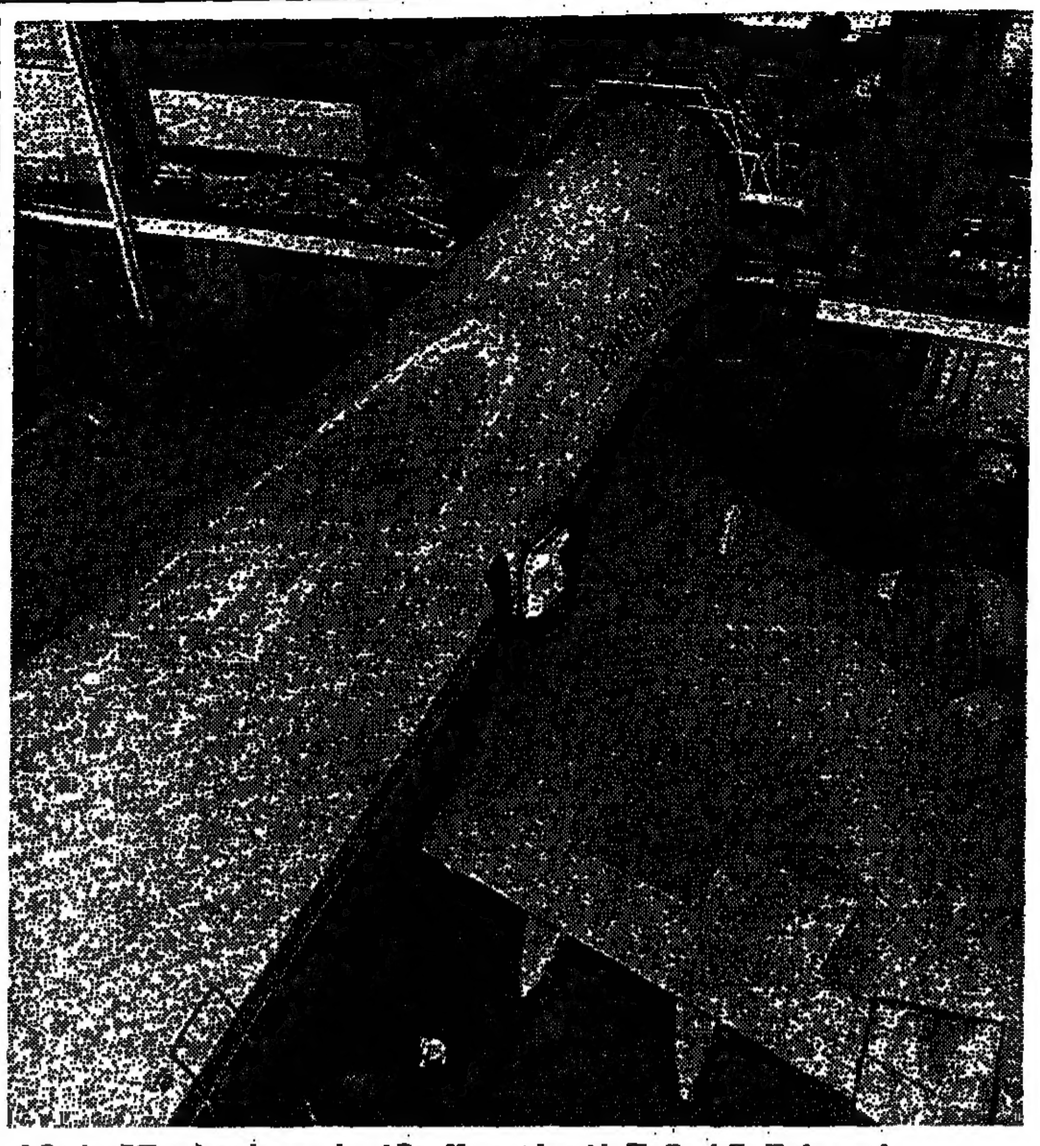
Though CAL will not face any great threat to its monopoly from other Taiwan-based airlines for a year or two, it is up against increasingly stiff competition from Asian and US carriers as Taiwan's market continues to expand.

To cope with Taiwan's double digit growth over the past three years, United Airlines, North West, Philippine Airlines, Cathay Pacific and Korean Airlines have all increased their flights to Taipei and Kaostung in the south of the island. The number of Taiwanese travelling abroad is expected to double to 4m by 2000.

Work has started on a second terminal for Taipei's Chiang Kai Shek airport, which will double its capacity by late 1991. Attempts to increase the capacity of Kaosiung airport have been hampered by protests over aircraft noise, which forced the government to close it at midnight each night.

CAL is also investing NT$315m on a new air cargo terminal for Taipei and $31.5m on a warehouse at JFK airport. The CAA recently formed a plan to try to make Chiang Kai Shek airport into Asia's main hub for air cargo and it has already been chosen by Federal Express to fill that role.

The government is considering dropping stringent restrictions on foreign investment in this industry by allowing Federal Express to build its own warehouse at the airport at a cost of $80m. It is also hoping attract other carriers to use Taiwan as a point of transshipment in order to rival and perhaps replace Hong Kong.



A Boeing 747 undergoing repairs at Don Muang airport in Thailand. Traffic is growing rapidly at the airport, which is closing the gap on Singapore as the region's main hub

Growth of international scheduled traffic by region 1978-88: average annual percentage increase

	Region of airline registration						
Traffic category	World	Africa	Asia/ Pacific	Europe	Latin America Caribbean	Middle East	North America
Passenger-km	7.0	4.6	10.4	4.8	5.8	5.8	8.4
Freight tonne-km	9.3	7.1	13.8	7.7	6.4	7.4	8.6
Mail tonne-km	3.9	3.6	8.4	3.2	2.8	6.9	2.6
Total tonne-km performed	7.7	5.2	11.5	5.8	6.1	6.4	8.3

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SOUTH KOREA

KAL under pressure to improve safety record

WHEN air traffic controllers at Tripoli airport advised Korean Air flight 803 to divert to another airport due to thick fog, pilot Kim Ho-jung decided to ignore the warning. At stake was his good time-keeping bonus, promotion prospects and saving "face".

The DC-10 crashed short of the runaway, wrecked several houses and burst into flames. Seventy-two passengers and six people on the ground were killed.

The crash was the first in a series of incidents last year which focused the safety spotlight on KAL and could not have come at a worse time for the world's 10th biggest airline.

In January the civil aviation bureau of the Transportation Ministry found KAL guilty of violating 58 "safety and administrative rules" and fined the airline $44,000 for eight "legal violations".

Mr Lee Hon-Sok, the new director of the aviation bureau, revealed that the airline failed to report four minor accidents to the ministry. Three aircraft – two A 300s and a B-727 – were grounded, pending minor repairs. Repairs were also ordered to be carried out on 18 other aircraft.

In announcing the results of a 20-day probe of the carrier carried out by 40 aviation bureau officials, ministry officials said the airline was seriously understaffed.

As of last December, KAL failed to hire 234 of the required 2,151 cabin attendants. To add insult to injury, 14 KAL pilots, scouted by new rival Asiana Airlines, resigned the day before a new "no poaching" decree was introduced. KAL pilots, reacting to a slump in public confidence, staged a bizarre rally at Kimpo International Airport in which hundreds of cockpit crew pledged to fly safely.

Just a few months earlier the government had lifted restrictions on Koreans travelling overseas and KAL anticipated a huge surge in profits. When the figures for last year came in, however, it was clear that the growth had not been as big as expected and that many passengers had foregone the usual nationalistic preference for KAL and flown foreign airlines.

Safety concerns and sloppy service were cited as the main reason. Also last year, the newly inaugurated Asian Airlines ended KAL's 20-year monopoly on domestic flights.

In spite of government wailing at the poor behaviour and big spending habits of the hundreds of thousands of cash-rich Koreans taking advantage of relaxed travel restrictions, there is little sign of a stemming of the tide of overseas travel with more than 1.5m people expected to go abroad this year. The biggest surge has been in the number of Koreans flying to Hong Kong, Manila and Bangkok.

Some 7.7m passengers used the two international terminals at Seoul's Kimpo Airport last year, an increase of 33 per cent over 1988. Domestic traffic increased by 40 per cent with 6.6m passing through Kimpo's domestic terminal.

In anticipation of similar increases over the next few years the government is studying plans to build new airports for Seoul, the southern port city of Pusan, the tourist island of Cheju, and one each on the east and west coasts. The Koreans hope to attract a significant portion of the regional traffic away from the congested airports of Japan.

The travel boom has led to a stepping up of services by most carriers already based in South Korea and a rush by newcomers to negotiate landing rights. Improved relations between Korea and its traditional Communist foes has led to optimism that KAL may soon have direct flights to Peking and Moscow.

For the present the most crucial showdown facing the industry is the dogfight between KAL and its new rival Asiana

For the present the most crucial showdown facing the industry is the dogfight between KAL and Asiana. KAL was disdainful of its new rival at first. Asiana's owner, the Kunho group, which operates bus routes and makes tyres, was chosen over big league competitors such as Gamsung and Byudnai for political reasons. It is one of the few business groups with its roots in the south-west Cholla region, which is less developed than the rest of the country and is an opposition stronghold.

In the first few months KAL showed no mercy and, when flights were delayed, preferred to make passengers wait hours rather than book them on three-quarters empty Asiana flights. Asiana's poaching of 20 top KAL pilots and around 100 other flight engineers and ground staff did not help relations. KAL was forced to hire Indonesian pilots to make up for the loss.

But it was the Tripoli crash which put the most severe pressure on the airline, highlighting its controversial practice of encouraging pilots to take risks in sticking to schedules.

Executives of international airlines flying out of Seoul have repeatedly accused KAL of putting passenger safety at risk by cutting corners for commercial reasons.

In the case of Capt Kim, foreign airline executives were incredulous that such a landing was ever attempted. "We would have re-routed hours before," said the assistant station manger of a British flag carrier operating out of Seoul.

In December, five months after the crash, Seoul's Ministry of Transportation filed criminal charges against Capt Kim, revoked the licenses of his co-pilot and flight mechanic and ordered a two-month suspension of KAL flights on the Seoul-Jiddah-Tripoli route.

It was a bad year all-round for KAL. In another incident, a Korean Air jet hit five runway lamps and burst three tyres landing at Amsterdam's Schipol Airport when the pilot missed the runway by 20 meters. In January, a KAL jet "blew" an engine shortly after take off from Jakarta, Indonesia, and was forced to turn back and make an emergency landing. Another jet bound for Tokyo has to return to Kimpo International Airport following mechanical problems.

Also in 1989 a US court ruled that the airline was partially responsible for the infamous shooting down of KAL flight 007 by Soviet fighters in 1983 after it apparently "wandered" into Soviet airspace. The court ordered Korean Air (which changed its name from Korean Air Lines after the incident) to pay $50m to bereaved families.

In the same week as the filing of criminal charges against Capt Kim and his crew, a Korean Air F-28 jet on a domestic flight crashed into flames at Seoul's Kimpo Airport, injuring more than 40 passengers. One passenger died in hospital later.

Last year's crashes made a dent in the company's profits. "It effected our earnings a little bit with the slight drop in the load factor," said airline spokesman Mr Shin Mu Chol. The airline, which has 53 aircraft and flies to 40 cities in 19 countries, last year carried 11.4m passengers and 470,000 tonnes of cargo (up 9 per cent and 24 per cent respectively). Revenues for the year were $1.74bn.

In spite of KAL's opposition, Asiana rapidly developed and in January this year inaugurated its first overseas route, between Seoul and Tokyo. It is scheduled to open three other Japan routes by April. The airline will begin flights to south-east Asia later in the year, to the US next year and Europe in 1992. The company operates nine leased Boeing 737-400s and plans to boost its fleet to 30 aircraft by 1994.

Michael Breen